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August 2, 2019

Bank of Japan

Minutes of the Monetary Policy Meeting

on June 19 and 20, 2019

(English translation prepared by the Bank's staff based on the Japanese original)

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Wednesday, June 19, 2019, from 2:00 p.m. to 4:05 p.m., and on Thursday, June 20, from 9:00 a.m. to 11:38 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. A. Nakamura, Vice-Minister for Policy Coordination, Cabinet Office

Reporting Staff

Mr. E. Maeda, Executive Director

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

Mr. Y. Ikeda, Executive Director

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

Mr. A. Okuno, Associate 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 July 29 and 30, 2019 as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

2 Mr. K. Ueno was present on June 20.

3 Mr. E. Chatani was present on June 19.

Mr. K. Iijima, Head of Policy Planning Division, Monetary Affairs Department

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

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

Mr. H. Ichiue, Associate Director-General, 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. Fujita, Deputy Director-General, Monetary Affairs Department[4]

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

Mr. H. Inaba, Senior Economist, Monetary Affairs Department

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[4] Mr. K. Fujita was present on June 19 from 3:00 p.m. to 4:05 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 April 24 and 25, 2019, 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 generally had been in negative territory. The uncollateralized overnight call rate had been in the range of around minus 0.02 to minus 0.08 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) generally were more or less unchanged at around minus 0.15 percent.

The Nikkei 225 Stock Average had fallen toward early June, particularly against the background of a heightening of uncertainty regarding U.S. trade policy, but thereafter it started to climb following the rises in U.S. and European stock prices, and it recently was moving in the range of 21,000-22,000 yen. Looking at the foreign exchange market, the yen had appreciated against both the U.S. dollar and the euro, reflecting a heightening of investors' risk aversion and a decline in U.S. and European interest rates.

C. Overseas Economic and Financial Developments

Overseas economies had been growing moderately on the whole, although slowdowns had been observed. With regard to the outlook, slowdowns were likely to continue for the time being; thereafter, however, such economies were likely to grow

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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.

moderately on the whole with the growth rates rising somewhat, partly due to the materialization of the effects of stimulus measures, such as in China, and the progress in global adjustments in IT-related goods.

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

The European economy had been decelerating. Exports had been more or less flat on the whole. While private consumption generally had been on an increasing trend, partly supported by a favorable employment and income situation and consumer sentiment, the pace of increase in business fixed investment had been decelerating, mainly against the backdrop of a deterioration in business sentiment of manufacturing firms. With regard to prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items had been at around 1.5 percent, and that for all items excluding energy, food, alcohol, and tobacco had been at around 1 percent. The European economy was likely to gradually move out of its deceleration phase with the progress in adjustments in the manufacturing sector. Meanwhile, the growth rate of the U.K. economy for April had dipped into negative territory due to such factors as the effects of automakers' planned temporary production shutdowns at their plants in the United Kingdom in view of the first scheduled date for a no-deal Brexit around end-March.

With regard to emerging economies, the Chinese economy continued to see stable growth on the whole, but some weakness had been observed in the manufacturing sector. As for prices, the year-on-year rate of change in the consumer price index (CPI) had been at around 2.5 percent. The economy was likely to broadly follow a stable growth path as authorities conducted fiscal and monetary policies in a timely manner, although it was expected to be affected to some extent by a reignition of the U.S.-China trade friction and authorities' measures to push forward with deleveraging. In the NIEs and ASEAN countries, domestic demand had been resilient, mainly on the back of favorable consumer sentiment and the effects of those economies' stimulus measures, although the increasing trend in exports had come to a pause. Economic activity in Russia and Brazil had been recovering moderately, albeit with fluctuations, mainly on the back of stable inflation rates. In India, the economy had been recovering moderately, particularly in private consumption.

With respect to overseas financial markets, stock prices in many economies had declined toward early June, partly against the backdrop of the heightening of uncertainty regarding U.S. trade policy. Thereafter, those stock prices started to rise, reflecting, for example, increasing market expectations of a federal funds rate cut by the Federal Reserve and indefinite suspension of imposing new tariffs that had been scheduled to be implemented by the United States against Mexico. U.S. and European long-term interest rates had declined, due mainly to a heightening of investors' risk aversion and increasing market expectations of a federal funds rate cut. In the commodity market, crude oil prices had been declining mainly against the background of the heightening of uncertainty regarding U.S. trade policy and accumulation of U.S. crude inventories in particular.

D. Economic and Financial Developments in Japan

1. Economic developments

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

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

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

Corporate profits and business sentiment stayed at favorable levels on the whole, albeit with some weakness observed in part. Looking at the *Financial Statements Statistics of Corporations by Industry, Quarterly*, the ratio of current profits to sales for the January-March quarter of 2019 remained at a high level on the whole. Business fixed investment continued on an increasing trend. Looking at its leading indicators, machinery orders, after declining for two consecutive quarters, had marked a relatively large increase for April compared with the January-March quarter, and construction starts in terms of planned expenses for private nonresidential construction continued on an increasing trend, albeit with monthly fluctuations. Business fixed investment was likely to increase moderately, mainly on the back of generally favorable corporate profits and accommodative financial conditions.

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

Private consumption had been increasing moderately, 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 slightly for the January-March quarter on a quarter-on-quarter basis and also risen for April relative to that quarter. Private consumption was likely to continue to increase moderately, supported mainly by the increase in employee income and the wealth effects stemming from the rise in stock prices.

Housing investment had been more or less flat overall, mainly because the number of housing starts in terms of owner-occupied houses had been increasing, although the number in terms of housing for rent had been on a decreasing trend, mainly reflecting a peaking-out in demand for tax saving.

Industrial production had shown some weakness. Although it was likely to be affected by the slowdown in overseas economies for the time being, it was projected to continue on a moderate increasing trend thereafter.

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 increasing, reflecting developments in international commodity prices and foreign exchange rates. The year-on-year rate of change in the CPI for all items less fresh food was in the range of 0.5-1.0 percent, and that for all items less fresh food and energy was at around 0.5 percent recently. With regard to the outlook, the year-on-year rate of change in the CPI for all items less fresh food was likely to increase gradually toward 2 percent, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising.

2. Financial environment

Financial conditions were highly accommodative.

Inflation expectations were more or less unchanged. Long-term real interest rates -- calculated as long-term interest rates minus medium- to long-term inflation expectations -- had been negative.

Firms' funding costs had been hovering at extremely low levels. With regard to credit supply, financial institutions' lending attitudes -- as perceived by firms -- had been highly accommodative. Issuing conditions for CP and corporate bonds had been favorable. Firms' credit demand had been increasing, such as for funds for business fixed investment and for those related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had been in the range of 2.5-3.0 percent. That in the amount outstanding of CP and corporate bonds had been at a relatively high level. Firms' financial positions had been favorable.

The year-on-year rate of increase in the monetary base had been at around 3-4 percent, and that in the money stock had been in the range of 2.5-3.0 percent.

II. Amendments to Principal Terms and Conditions for Expanding Eligible Collateral for the Bank's Provision of Credit and for Improving the Use of the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth

A. Staff Reports

At the Monetary Policy Meeting held in April 2019, the Bank decided on measures that would contribute to the continuation of powerful monetary easing. In view of this decision, the staff proposed that the Bank amend principal terms and conditions for expanding eligible collateral for the Bank's provision of credit and for improving the use of the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth.

B. Discussion by the Policy Board and Vote

"Establishment of 'Temporary Rules regarding the Eligibility Standards for Debt of Companies and Municipal Governments,'" which represented the aforementioned staff reports, was put to a vote. Members voted unanimously to approve the proposal. They concurred that this should be made public after the meeting.

III. Summary of Discussions by the Policy Board on Economic and Financial Developments

A. Economic Developments

Members shared the recognition that global financial markets had been regaining stability gradually, as evidenced by developments in stock prices in many economies; specifically, they had declined toward early June, partly against the backdrop of the heightening of uncertainty regarding U.S. trade policy, but thereafter started to rise reflecting, for example, increasing market expectations of a federal funds rate cut by the Federal Reserve and indefinite suspension of imposing new tariffs that had been scheduled to be implemented by the United States against Mexico. Many members expressed the recognition that long-term interest rates had declined on a global basis, due mainly to a heightening of investors' risk aversion and increasing market expectations of a federal funds rate cut. One of these members added that, in this situation, long-term interest rates in Japan currently marked the fourth lowest level among major economies after Switzerland, Germany, and Denmark. A few members pointed out that, although the yen had appreciated somewhat against the U.S. dollar, due mainly to the narrowed interest rate differentials between Japan and the United States, the most recent improvement in market participants' risk sentiment had restrained upward pressure on the yen. One member expressed the view that intensified trade friction and heightened geopolitical tensions had resulted in a further deterioration in business sentiment, and also had started to affect, for example, investors' sentiment in financial markets. Meanwhile, one member pointed out that, although crude oil prices had risen temporarily, reflecting the heightened geopolitical risks, they had been on a downtrend mainly against the background of the heightening of uncertainty regarding U.S. trade policy.

With respect to overseas economies, members shared the recognition that they had been growing moderately on the whole, although slowdowns had been observed. A few members expressed the recognition that the global adjustments in the manufacturing sector continued as the Global Purchasing Managers' Index (PMI) for manufacturing had declined below 50 in May and the world trade volume had not yet recovered. However, some members pointed out that domestic demand in many economies remained firm, partly supported by a favorable employment and income situation, and that the moderate growth trend in overseas economies was maintained. As for the outlook for overseas economies, members shared the recognition that slowdowns were likely to continue for the time being; thereafter, however, such economies were likely to grow moderately on the whole with the growth rates rising somewhat, partly due to the materialization of the effects of stimulus measures, such as in China, and the progress in global adjustments in IT-related goods. Some members expressed the recognition that the global economy was expected to pick up from the second half of 2019. One of these members added that, while some nervousness had been seen in the financial markets, it was necessary to examine the effects of policy responses in each economy as the firmness in the fundamentals of the global economy was maintained. A different member noted that, although overseas economies had managed to avoid a rapid deceleration for now, various risks entailed in these economies warranted attention. Some members expressed the recognition that downside risks concerning overseas economies -- such as the effects of the U.S.-China trade friction and developments in the Chinese economy, including the aforementioned effects -- remained significant, and that those risks had tilted to the downside compared with the previous meeting.

With regard to the current situation of overseas economies by region and their outlook, members concurred that the U.S. economy had been expanding moderately. Many members noted that consumer sentiment had been firm, supported in part by a favorable employment and income situation, and that private consumption remained on an increasing trend. A few members said that it was of concern that the improving trend in business sentiment, particularly of manufacturing firms, had weakened, although hard data remained favorable. As for the outlook, members shared the view that the economy was likely to maintain its moderate expansion, partly underpinned by expansionary fiscal measures.

Some members pointed out that uncertainty regarding trade policy had been heightening again since early May, and due attention needed to be paid to the risk that this would exert downward pressure on the economy through deterioration in business sentiment and turbulence in financial markets.

Members shared the recognition that the European economy had been decelerating. Some members expressed the recognition that, while private consumption generally had been on an increasing trend, business sentiment of manufacturing firms continued to deteriorate and production had shown relatively weak developments, particularly in Germany, mainly due to the effects of the slowdown in the Chinese economy. As for the outlook, members concurred that the European economy was likely to gradually move out of its deceleration phase with the progress in adjustments in the manufacturing sector. On this basis, a few members noted that, if risks to the political situation in Europe -- such as developments in negotiations on the United Kingdom's exit from the European Union (EU) -- materialized, there was a possibility that a recovery in the European economy would lag or that the economy would decelerate more significantly than expected.

Members agreed that the Chinese economy continued to see stable growth on the whole, but some weakness had been observed in the manufacturing sector. A few members pointed out that the effects of authorities' stimulus measures had been limited to date, and a clear improvement in the economy had not been observed yet, due in part to the effects of the U.S.-China trade friction. As for the outlook, however, members shared the view that the economy was likely to broadly follow a stable growth path as authorities conducted fiscal and monetary policies in a timely manner, although it was expected to be affected to some extent by a reignition of the U.S.-China trade friction and authorities' measures to push forward with deleveraging. Some members expressed the recognition that the pace of economic growth was highly likely to recover through the second half of 2019, partly because the effects of stimulus measures gradually would materialize and progress in adjustments in IT-related goods was anticipated. However, a few members said that attention should be paid to the fact that there were significant uncertainties regarding the effects of authorities' stimulus measures, and there also were factors that would cause a delay in the economic recovery, such as the implementation of additional tariff measures by the United States.

Members shared the recognition that emerging economies had been recovering moderately overall, despite partly being affected by the slowdown in the Chinese economy. They concurred that, in the NIEs and ASEAN countries, domestic demand had been resilient, mainly on the back of favorable consumer sentiment and the effects of those economies' stimulus measures, although the increasing trend in exports had come to a pause. As for the outlook, members agreed that emerging economies were likely to continue their moderate recovery on the whole, mainly reflecting the effects of those economies' stimulus measures, despite being affected by the slowdown in the Chinese economy and adjustments in IT-related goods. A few members noted that emerging economies generally had been firm, but political risks in these countries and geopolitical risks in the Middle East continued to warrant attention.

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

With regard to <u>economic activity</u>, members agreed that the economy had been on a moderate expanding trend, with a virtuous cycle from income to spending operating, although exports and production had been affected by the slowdown in overseas economies. Some members pointed out that real GDP for the January-March quarter had registered clearly positive growth, but this mainly was due to the decline in imports and the growth in domestic demand, such as in terms of private consumption and business fixed investment, was not as strong as what could be presumed from headline growth. A few of these members stated that attention also needed to be paid to the fact that indicators related to sentiment, such as the indices in the *Economy Watchers Survey*, continued to decline. Nevertheless, many members expressed the view that, as evidenced by hard data through April, although weakness in exports and production remained, domestic demand had been firm, and that the basic mechanism for economic expansion, in which a virtuous cycle from income to spending operated, was maintained.

As for <u>the outlook for the economy</u>, members concurred that it was likely to continue on a moderate expanding trend, despite being affected by the slowdown in overseas economies for the time being. On a more specific note, they shared the recognition that domestic demand was likely to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending. Many members noted that there had been a heightening of uncertainty regarding U.S. trade policy since May, and that it was necessary to closely examine its impact on firms' fixed investment plans as well as the employment and income situation, taking into consideration developments in economic indicators since May, the results of the June *Tankan* (Short-Term Economic Survey of Enterprises in Japan), and various information obtained from interviews with firms. On this basis, members shared the recognition that downside risks concerning overseas economies were likely to be significant, and that it was necessary to continue paying close attention to their impact on firms' and households' sentiment in Japan. Moreover, a few members stated that future economic developments warranted careful attention since, in a situation where the slowdown in overseas economies could be prolonged, there was a risk that the consumption tax hike scheduled for October 2019 would exert downward pressure on Japan's economy.

Regarding recent developments in exports, members shared the recognition that they had shown some weakness. With respect to real exports, which had registered a sizeable decline in May on a month-on-month basis after having increased in April, some members pointed out that exports of capital goods and IT-related goods to China had declined remarkably, mainly against the background of the slowdown in the Chinese economy and the global weakening of demand for IT-related goods. As for the outlook, members agreed that, although exports were likely to show some weakness for the time being, they also were likely to be on a moderate increasing trend on the back of overseas economies growing moderately on the whole. One member noted that it was necessary to closely monitor future developments in exports, as a sense of vigilance was intensifying among Japanese exporting firms, mainly reflecting a reignition of the U.S.-China trade friction.

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 and business sentiment staying at favorable levels on the whole, albeit with some weakness observed in part. A few members said that the uptrend in business fixed investment was maintained with construction starts continuing to increase and machinery orders, which had been relatively weak, exhibiting a rebound recently. Regarding the outlook, members concurred that business fixed investment was likely to increase moderately, mainly on the back of generally favorable corporate profits and accommodative financial conditions. On this basis, they discussed the extent of firmness in business fixed investment amid significant uncertainties regarding overseas economies. A few members said that, even with heightening uncertainties and the risk of a slowdown regarding the global economy, business fixed investment continued on an increasing trend, particularly on the back of investment aimed at saving labor to address labor shortage and sustained investment in maintenance and replacement of plant equipment, as well as in research and development. These members continued that this showed the resilience of Japan's economy against the slowdown in overseas economies. In response to this, a few members -- noting that business fixed investment was a lagging indicator -- pointed out that attention needed to be paid to possible downward pressure on such investment going forward if weakness in exports and production became prolonged or business sentiment deteriorated considerably due in part to the U.S.-China trade friction.

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 employee income had been increasing. Some members noted that labor market conditions remained tight, as evidenced, for example, by the fact that the unemployment rate remained at a low level of around 2.5 percent and the active job openings-to-applicants ratio maintained the high level that exceeded the peak marked during the bubble period. One member expressed the view that wage developments were firm, as seen mainly in the conduct of a base pay increase for a sixth consecutive year and a continued rise in hourly scheduled cash earnings of part-time employees. Counter to this, a few members commented that a degree of deceleration in growth seen recently of the number of employed persons and nominal wages was a matter of concern, although the possibility of statistical fluctuations could not be denied. Meanwhile, one member pointed out that the sluggish increase in wages was partly attributable to the prevailing practice in which wage increases were determined based on the previous year's inflation rate, and that one method for accelerating wage growth -- as argued by a U.S. economist -- would be for the public sector to take the lead in revising such practice.

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 to do so, supported mainly by the increase in employee income and the wealth effects stemming from the rise in stock prices. One member said that some claimed that a front-loaded increase in demand prior to the consumption tax hike scheduled for October 2019 was starting to be observed in sales of some items, such as passenger cars. This member then expressed the recognition that, however, private consumption remained firm in a wide range of items, including services consumption, where the front-loading of demand was rather unlikely to take place. Nevertheless, some members, including this member, pointed out that it would be necessary to thoroughly examine the underlying trend in consumption while carefully monitoring the effects of the slowdown in overseas economies on consumer sentiment and of the scheduled tax hike on consumption.

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

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

As for prices, members concurred that the year-on-year rate of change in the CPI for all items less fresh food was in the range of 0.5-1.0 percent while that for all items less fresh food and energy remained within positive territory, at around 0.5 percent, due partly to firms' cautious wage- and price-setting stance. On this basis, they shared the recognition that the year-on-year rate of change in the CPI had been positive but continued to show relatively weak developments compared to the economic expansion and labor market tightening. One member expressed the view that, while upward pressure of a positive output gap on prices was maintained, a rise in inflation had been delayed, being offset by the constraining effects on inflation due to a rise in productivity accompanying, for example, firms' labor-saving investment. A different member commented that there were many cases in which firms could absorb upward pressure of costs by increasing productivity instead of raising prices, and one example was termination of late-night services at some stores by the convenience store industry, adding that this might be the reason for the delay in price rises. Moreover, one member, noting that the impact of the U.S.-China trade friction was large in Japan, pointed out that, in this situation, attention should be paid to the fact that an acceleration in inflation had not been seen, and there was still a long way to go to achieve the price stability target of 2 percent. However, many members expressed the recognition that the basic mechanism in which a positive output gap resulted in moderate increases in wages and prices continued to operate, with domestic demand remaining firm and labor shortage continuing. A few of these members pointed out that recent price developments seemed to have become more stable, as evidenced, for example, by (1) the fact that daily and weekly price data confirmed that further price rises, such as in food products, had spread widely on the back of increases in personnel expenses and prices of raw materials, and (2) a rise in prices of services owing to the prolonged labor market tightening.

In terms of the outlook for prices, most members shared the view that the year-on-year rate of change in the CPI was likely to increase gradually toward 2 percent, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising. One member said that the inflation rate was expected to rise gradually, although it would take time, as the increase in labor productivity, which had been constraining inflation, would not continue endlessly and as consumers' tolerance of price rises was likely to increase with a rise in wages. One member expressed the view that, in order to raise the inflation rate and maintain its level going forward, it was necessary to further raise wages and continue doing so while maintaining reasonably tight labor market conditions. On this basis, some members said that it was necessary to carefully monitor the risk that prices would be adversely affected by a trend change in the output gap, given the significant downside risks to the economy. One of these members pointed out that it was necessary to thoroughly examine how the recent increased cautiousness in firms' and households' sentiment would affect the momentum for price rises. Meanwhile, one member noted that it could not be judged that the inflation rate would accelerate toward 2 percent, mainly because the possibility that the output gap would continue to widen within positive territory was low and because inflation expectations remained weak.

Members agreed that inflation expectations were more or less unchanged. A few members expressed the recognition that signs of a shift in households' tolerance of price rises and in firms' price-setting stance were being observed, given that households' inflation expectations recently rose somewhat and the diffusion index for output prices in the March *Tankan* marked a sixth consecutive quarterly increase for the first time since the bubble period. One member commented that due attention should be paid to developments in the foreign exchange market and crude oil prices, as inflation expectations, which were strongly affected by the adaptive formation mechanism, depended on actual price movements.

B. Financial Developments

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

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

Members discussed the Bank's basic stance on conducting monetary policy. Most members shared the recognition that, although it would take time to achieve the 2 percent price stability target, it was appropriate to persistently continue with the powerful monetary easing under the current guideline for market operations as the momentum toward achieving 2 percent inflation was being maintained. Many members said that it was necessary to maintain the highly accommodative financial conditions under the current policy while taking account of developments in economic activity and prices as well as financial conditions in a balanced manner, so that the positive output gap -- a driver for a rise in inflation -- would be maintained for as long as possible. One member pointed out that, with the aim of achieving the price stability target, the Bank should persistently continue with the current monetary policy stance and continuously encourage the virtuous cycle of the economy to take hold. One member expressed the view that, despite high uncertainties regarding overseas economies going forward, the Bank should aim to achieve the price stability target by persistently continuing with the current monetary easing policy while paying closer attention than before to the side effects on the functioning of financial intermediation and the market functioning. On this basis, the member added that it was important that a policy mix of monetary and fiscal policies be sustained. Meanwhile, one member said that, while central banks had been vigilant regarding the slowdown in the global economy and heightening uncertainties over it, the key to overcoming deflation was for the Bank to maintain its stance of taking some kind of policy response if any changes emerged in the baseline scenario of the outlook for prices. The member then pointed out that all policy measures -- including adjustments in short- and long-term interest rates, an acceleration in the pace of expansion in the monetary base, and an increase in the amount of assets to be purchased -- should be deliberated when considering additional easing. A different member said that, amid changes in the external environment, such as growing expectations for monetary easing in the United States and Europe, the Bank also needed to strengthen monetary easing, and that it was necessary to further consider in depth the feasibility of a wide range of additional easing measures, as well as their effects and side effects. In response, a few members, noting that central banks sought to conduct monetary policy in an appropriate manner with a view to stabilizing economic activity and prices in their own countries, expressed the recognition that the Bank needed to do likewise while taking account of developments in Japan's economic activity and prices as well as financial conditions. On this basis, some members pointed out that the Bank should make policy adjustments when judged necessary with a view to maintaining the momentum toward achieving the price stability target, as had been communicated to the public thus far. A few of these members added that, in such event, it was necessary to thoroughly consider the effects and side effects of policy measures when making adjustments.

Members then deliberated over points to take into account in conducting monetary policy in the future. In relation to a decline in long-term yields in Japan since the previous meeting, some members pointed out that they had borne in mind that such yields might move at about double the range of around plus or minus 0.1 percent. These members then expressed the recognition that, with a view to mitigating the side effects of powerful monetary easing on market functioning, it was unnecessary to follow too strictly the specified range of yield movement, and it was instead appropriate to continue to control the long-term yields in a flexible manner. A few members, noting that the Bank had decided measures that would contribute to the continuation of powerful monetary easing at the previous meeting, pointed out that it still needed to constantly consider measures that would enhance the sustainability of monetary easing. Meanwhile, a few members expressed the recognition that, under the prolonged low interest rate environment, attention should be paid to the possibility that (1) profitability, mainly of regional financial institutions, would decline further and (2) an increasing number of financial institutions would take excessive risks to secure profits. On this point, a few members pointed out that, as the heat map in the *Financial System Report* showed that only the real estate loans had turned "red," it could be assessed at this point that Japan's financial system was maintaining stability. One member said that, as some financial institutions faced the structural issue that deposits tend to accumulate amid a limited number of borrowers, mergers or collaboration with other financial institutions could be effective options toward securing financial system stability.

One member expressed the view that the effects of JGB purchases had spread to economic activity and prices, mainly through changes in interest rates, and that quantitative effects were limited unless accompanied by downward pressure on interest rates. The member also commented that, currently, lending rates were approaching the levels of the so-called reversal rates, which reversed the effects of monetary easing, and that if base rates for bank loans declined further, there could be a decrease in the amount of bank loans. Regarding the provision of funds with negative interest rates by central banks to financial institutions, this member continued that there was a risk that it also would not lead to an increase in the amount of bank loans, depending on developments in economic activity and financial conditions.

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

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

On this point, one member expressed the opinion that, since allowing the long-term yields to move to some extent was ambiguous as the guideline for market operations decided by the Policy Board, these yields could rise more than necessary, depending on the Bank's conduct of market operations, which could hamper the intended effects of the current yield curve control. A different member was of the opinion that, given, for example, that risks concerning the outlook for economic activity had tilted to the downside and early achievement of 2 percent inflation could not be envisaged, it was necessary for the Bank to further strengthen monetary easing instead of persistently continuing with the current policy.

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

With respect to the Bank's thinking behind its future conduct of monetary policy, most members shared the view that it would (1) continue with QQE with Yield Curve Control, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining that target in a stable manner; (2) continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeded 2 percent and stayed above the target in a stable manner; (3) as for policy rates, maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020, taking into account uncertainties regarding economic activity and prices including developments in overseas economies and the effects of the scheduled consumption tax hike; 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.

On this point, one member said that it was desirable to introduce forward guidance for policy rates that would further clarify its relationship with the price stability target. A different member was of the opinion that, in order to achieve the price stability target 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 government was proceeding with discussions on the Basic Policy on Economic and Fiscal Management and Reform 2019 (hereafter the Basic Policy), which was to be compiled on June 21. Since the Abe administration took office in 2012, the government had been working on economic revitalization and fiscal consolidation in an integrated manner in accordance with the Basic Policies compiled in past years, which it considered had steadily made achievements. The government would continue to promote the integrated economic and fiscal reforms toward achieving the fiscal consolidation target by fiscal 2025, in line with the New Plan to Advance Economic and Fiscal Revitalization.

(2) At the Group of Twenty (G20) meeting held on June 8 and 9 in Fukuoka, a lively discussion took place about policy priorities set under Japan's presidency. The meeting was a notable success and further discussion was expected to be held at the G20 Osaka

Summit. The member countries shared the recognition that the global economy in particular was projected to generally recover despite various downside risks, and that it was necessary to address these risks and take actions.

(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) As for economic conditions in Japan, while weakness in exports and industrial production continued, due mainly to the slowdown in the Chinese economy, domestic demand had been firm, as seen, for example, in the improvement in the employment and income situation; the government therefore deemed that there was no change in the moderate recovery trend for the Japanese economy. As for the outlook, weakness likely would remain for the time being, but the economy was expected to continue recovering at a moderate pace, supported partly by the effects of the government's policies, while the employment and income situation continued to improve. However, further attention should be paid to the effects on the world economy of developments in the trade friction. In addition, other factors such as the prospects for the Chinese economy, uncertainties regarding developments in overseas economies and their policies, and volatility in financial markets warranted attention.

(2) In the Basic Policy to be compiled on June 21, the government focused on accelerating the realization of Society 5.0, taking strong account of changes in the global environment. The Basic Policy was characterized by initiatives such as promotion of measures to increase household income -- including a support program for the "employment ice-age" generation and measures to raising minimum wages -- regional revitalization measures amid a declining population, and enhancement of regional policy measures. On the fiscal side, the government focused primarily on efficient and high-quality administrative and fiscal reforms through next-generation administrative services such as digital government. As for short-term principles in economic and fiscal management, it was described clearly in the Basic Policy that the government would implement an appropriate size of temporary and special measures in the fiscal 2020

budget formulation and take macroeconomic measures flexibly without hesitation when downside risks to economies materialized.

(3) The government expected the Bank to steadily pursue monetary easing toward achieving the price stability target, taking account of developments in economic activity and prices as well as financial conditions.

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

B. Vote on the Guideline for Asset Purchases

To reflect the view of the members, the chairman formulated the following proposal to implement the guideline for asset purchases for the intermeeting period and put it to a vote: (1) to purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank might increase or decrease the amount of purchases depending on market conditions, and (2) to maintain the amounts outstanding of CP and corporate bonds at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

The Policy Board decided the proposal by a unanimous vote.

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

Votes against the proposal: None.

VII. Discussion on the Statement on Monetary Policy

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

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

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of April 24 and 25, 2019 for release on June 25.

Attachment

June 20, 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. Japan's economy has been on a moderate expanding trend, with a virtuous cycle from income to spending operating, although exports and production have been affected by the slowdown in overseas economies. Overseas economies have been growing moderately on the whole, although slowdowns have been observed. In this situation, exports and industrial production have shown some weakness. On the other hand, corporate profits and business sentiment have stayed at favorable levels on the whole, albeit with some weakness observed in part, and business fixed investment has continued on an increasing trend. Private consumption has been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Housing investment has been more or less flat. Public investment also has been more or less flat, remaining at a relatively high level. Meanwhile, labor market conditions have continued to tighten steadily. Financial conditions are highly accommodative. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) is in the range of 0.5-1.0 percent. Inflation expectations have been more or less unchanged.

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

4. Risks to the outlook include the following: the U.S. macroeconomic policies and their impact on global financial markets; the consequences of protectionist moves and their effects; developments in emerging and commodity-exporting economies such as China, including the effects of the two aforementioned factors; developments in global adjustments in IT-related goods; negotiations on the United Kingdom's exit from the European Union (EU) and their effects; and geopolitical risks. Downside risks concerning overseas economies are likely to be

significant, and it also is necessary to pay close attention to their impact on firms' and households' sentiment in Japan.

5. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020, taking into account uncertainties regarding economic activity and prices including developments in overseas economies and the effects of the scheduled consumption tax hike. It will examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target. [Note 3]

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. M. Amamiya, Mr. M. Wakatabe, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, and Mr. H. Suzuki. Voting against the action: Mr. Y. Harada and Mr. G. Kataoka. Mr. Y. Harada dissented, considering that allowing the long-term yields to move upward and downward to some extent was too ambiguous as the guideline for market operations decided by the Policy Board. Mr. G. Kataoka dissented, considering that, with a further heightening of uncertainties regarding developments in economic activity and prices going forward, it was desirable to strengthen monetary easing.

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

[Note 3] Mr. Y. Harada dissented, considering that, as for policy rates, it was appropriate to introduce forward guidance that would further clarify its relationship with the price stability target. In order to achieve the price stability target of 2 percent at the earliest possible time, Mr. G. Kataoka dissented, considering that further coordination of fiscal and monetary policy was important, and that it was necessary for the Bank to make a commitment to taking additional easing measures if it revised downward its assessment of medium- to long-term inflation expectations.