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March 19, 2020

Bank of Japan

Minutes of the Monetary Policy Meeting

on January 20 and 21, 2020

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Monday, January 20, 2020, from 2:00 p.m. to 3:16 p.m., and on Tuesday, January 21, from 9:00 a.m. to 11:54 a.m.[1]

Policy Board Members Present

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

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

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

Mr. HARADA Yutaka

Mr. FUNO Yukitoshi

Mr. SAKURAI Makoto

Ms. MASAI Takako

Mr. SUZUKI Hitoshi

Mr. KATAOKA Goushi

Government Representatives Present

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

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

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

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

Reporting Staff

Mr. MAEDA Eiji, Executive Director

Mr. UCHIDA Shinichi, Executive Director (Assistant Governor)

Mr. IKEDA Yuichi, Executive Director

Mr. KATO Takeshi, 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 16, 2020, as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Messrs. Toyama and Miyashita were present on January 21.

[3] Messrs. Kanda and Tawa were present on January 20.

Mr. IIJIMA Kota, Head of Policy Planning Division, Monetary Affairs Department

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

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

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

Mr. FUKUMOTO Tomoyuki, Deputy Director-General, International Department

Secretariat of the Monetary Policy Meeting

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

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

Mr. HIGASHI Masato, Senior Economist, Monetary Affairs Department

Mr. NAGAE Shinichiro, Senior Economist, Monetary Affairs Department

Mr. HOGEN Yoshihiko, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[4]

A. Market Operations in the Intermeeting Period

In accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both of which were decided at the previous meeting on December 18 and 19, 2019, the Bank had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[5] In this situation, 10-year JGB yields had been at around 0 percent, and the shape of the JGB yield curve had been consistent with the guideline for market operations.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments generally had been in negative territory. The uncollateralized overnight call rate had been in the range of around minus 0.02 to minus 0.07 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had risen somewhat, reflecting expectations for successive issuance from the turn of 2020, but had been in the range of around minus 0.1 to minus 0.2 percent.

The Nikkei 225 Stock Average had been at around the high level last seen at the beginning of 2019, albeit with fluctuations, generally remaining at the same level as at the time of the previous meeting throughout the intermeeting period. In the foreign exchange market, the yen had been depreciating somewhat against the U.S. dollar and the euro compared with at the time of the previous meeting throughout the intermeeting period, although it had appreciated somewhat when geopolitical risks in the Middle East heightened.

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

[5] The target level of the long-term interest rate was as follows:

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

C. Overseas Economic and Financial Developments

Overseas economies had been growing moderately on the whole, albeit with slowdowns continuing to be observed. With regard to the outlook, although a pick-up in the growth pace of these economies was likely to take some time, their growth rates were projected to rise thereafter -- on the back of the materialization of the effects of macroeconomic policies in each country as well as a pick-up in the manufacturing sector, due mainly to the global cycle for IT-related goods shifting toward a phase of improvement -- and these economies were likely to grow moderately on the whole.

The U.S. economy had been expanding moderately, although some weakness had been seen in the manufacturing sector. Private consumption had been increasing, supported in part by a favorable employment and income situation and consumer sentiment. On the other hand, exports remained more or less flat, mainly due to the effects of the U.S.-China trade friction, and business fixed investment continued to show relatively weak developments, mainly against the backdrop of a deterioration in business sentiment of manufacturing firms. 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 accommodative financial conditions, although the effects of the U.S.-China trade friction were likely to remain for the time being.

The European economy remained in the deceleration phase, mainly due to adjustments in the manufacturing sector. Exports continued to show relatively weak developments. Business fixed investment remained more or less flat, mainly against the background of continued deterioration in business sentiment of manufacturing firms. Private consumption generally had been on an increasing trend, partly supported by a favorable employment and income situation and consumer sentiment. With regard to prices, both the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items 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, reflecting the pick-up in the manufacturing sector. Meanwhile, the U.K. economy had weakened somewhat, due in part to the effects of movements ahead of the United Kingdom's exit from the European Union (EU).

With regard to emerging economies, the Chinese economy continued to see stable growth on the whole, but some weakness remained in the manufacturing sector. As for prices, the year-on-year rate of change in the consumer price index (CPI) had been in the range of 4-5 percent. The economy was likely to broadly follow a stable growth path with the authorities implementing macroeconomic policies in an incremental manner, despite being affected to some extent by the trade friction with the United States and the authorities' measures to push forward with deleveraging. In the NIEs and the ASEAN countries, while exports had been relatively weak, especially to China, domestic demand had been resilient, mainly on the back of favorable consumer sentiment and the effects of those economies' macroeconomic policies. Economic activity in Russia and Brazil had been recovering moderately, mainly on the back of stable inflation rates. In India, the economy was in a deceleration phase, with relatively weak developments observed mainly in private consumption and business fixed investment.

With respect to overseas financial markets, although there had been temporary fluctuations due to heightened geopolitical risks in the Middle East, market sentiment continued to improve, mainly reflecting progress in the U.S.-China trade negotiations. Under these circumstances, U.S. and European stock prices had risen somewhat compared with at the time of the previous meeting. While long-term interest rates in the United States had declined somewhat compared with at the time of the previous meeting, those in Europe had risen somewhat. Crude oil prices had risen temporarily due to heightened geopolitical risks in the Middle East, but declined thereafter, reflecting speculation over an increase in crude oil production.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had been on a moderate expanding trend, with a virtuous cycle from income to spending operating, although exports, production, and business sentiment had shown some weakness, mainly affected by the slowdown in overseas economies and by natural disasters. With regard to the outlook, it was likely to continue on that trend as the impact of the slowdown in overseas economies on domestic demand was expected to be limited, although that impact was likely to remain for the time being.

Exports continued to show some weakness. While IT-related exports had been on an uptrend, automobile-related ones had registered a relatively large decline and exports of capital goods remained on a somewhat weakening trend. Exports overall were projected to still show some weakness for the time being, mainly in automobile-related and capital goods, although IT-related exports were likely to maintain an uptrend. They were expected to return to their moderate increasing trend thereafter with the growth rates of overseas economies rising.

Public investment had increased moderately. The amount of public construction completed had increased for three consecutive quarters since the January-March quarter of 2019, and also was positive for October relative to the July-September quarter. As for the outlook, public investment was likely to continue increasing moderately, due to expansion such as in construction related to restoration and reconstruction following natural disasters as well as to national resilience -- which reflected the latest economic measures -- in addition to the progress in construction of temporary facilities for the Olympic Games.

Corporate profits had been at high levels on the whole, albeit with some weakness observed in part. Although business sentiment of manufacturing firms clearly had become cautious, that of nonmanufacturing firms stayed at a favorable level on the whole. Business fixed investment continued on an increasing trend. The aggregate supply of capital goods was more or less flat recently, mainly due to the effects of the slowdown in overseas economies. Private construction completed (nonresidential) maintained its moderate uptrend from a somewhat longer-term perspective, although its pace of increase had decelerated, partly due to a peak-out of Olympic Games-related demand. With regard to the outlook, business fixed investment was likely to decelerate temporarily for the time being, mainly for machinery investment by manufacturing firms, due to the effects of the slowdown in overseas economies. However, it was expected to increase moderately from a somewhat longer-term perspective, mainly on the back of accommodative financial conditions.

As for the employment and income situation, supply-demand conditions in the labor market remained tight and employee income had increased. The unemployment rate remained at around the lowest level observed in the current economic expansion phase. The active job openings-to-applicants ratio remained at a high level that exceeded the peak marked during the bubble period, although it had declined slightly since the end of 2018 due to the effects of the slowdown in overseas economies.

Private consumption had been increasing moderately, albeit with fluctuations due to such effects as of the October 2019 consumption tax hike, 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 shown a relatively significant decline recently, mainly due to the decline in demand following the tax hike and the effects of natural disasters. In the outlook, downward pressure on private consumption stemming from the reactionary decline to the increase in demand prior to the tax hike and the decrease in real income was likely to remain for the time being but wane gradually, underpinned by various support measures for households and the improvement in the employment and income situation. Thereafter, private consumption was expected to continue on a moderate increasing trend, supported by the increase in employee income and the wealth effects stemming from a rise in stock prices.

Housing investment had been more or less flat. Looking at the number of housing starts, (1) owned houses had seen a decrease in demand, albeit to a small extent compared with that of the previous tax hike in 2014, and (2) detached houses built for sale had been more or less flat, albeit with fluctuations that resulted from developments in large-scale properties, whereas (3) housing for rent continued on a downtrend, mainly against the background of waning demand for tax saving and asset management as well as cautious lending attitudes of financial institutions.

Industrial production had declined recently, due partly to the effects of natural disasters, with the continued slowdown in overseas economies. It was projected to turn to a moderate increase, as the effects of the consumption tax hike would wane and IT-related exports would follow an uptrend for the time being, while an acceleration in production that more than offset the impact of natural disasters would exert upward pressure.

As for prices, the rate of decline in the producer price index (PPI) relative to three months earlier -- excluding the direct effects of the consumption tax hike and adjusted for the effects of seasonal changes in electricity rates -- had decelerated, reflecting developments in international commodity prices and foreign exchange rates. The year-on-year rate of change in the CPI for all items less fresh food was at around 0.5 percent, and that for all items less fresh food and energy was in the range of 0.5-1.0 percent. With regard to the outlook, despite such effects as of the past decline in crude oil prices for the time being, 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, both in a situation where the economy continued on an expanding trend.

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 percent. That in the amount outstanding of CP and corporate bonds had been at a relatively high level of around 9 percent. Firms' financial positions had been favorable.

The year-on-year rate of increase in the monetary base had been in the range of 3.0-3.5 percent, and that in the money stock had been in the range of 2.5-3.0 percent.

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

A. Economic Developments

Regarding global financial markets, members shared the recognition that, although there had been temporary fluctuations due to heightened geopolitical risks in the Middle East, stock prices in advanced economies had been at high levels while the yen had been depreciating somewhat in the foreign exchange market, on the back of continued improvement in market sentiment that mainly reflected the progress in the U.S.-China trade negotiations and in the United Kingdom's exit from the EU. On this basis, they concurred that the good news was that the U.S.-China Phase 1 trade agreement had been signed, but the situation remained highly uncertain considering the fact that steps toward the second phase of an agreement remained ambiguous and that geopolitical risks in the Middle East were heightening. Some members commented that, although tensions in the situation surrounding the Middle East had intensified at one point, further deterioration had been prevented, and thus there was no substantial change in capital flows and financial markets.

Members shared the recognition that overseas economies had been growing moderately on the whole, although slowdowns continued to be observed. Many members noted that overseas economies were starting to show signs of heading toward a pick-up, mainly evidenced by the Global Purchasing Managers' Index (PMI) for manufacturing exceeding the 50 mark for two consecutive months, the cycle for IT-related goods shifting toward a phase of improvement, and the progress in the U.S.-China trade negotiations. At the same time, one member, pointing out that developments in economic indicators had been lackluster relative to, for example, the improvement in market sentiment, expressed an intent to pay close attention to whether such indicators would see improvement in line with that in market sentiment. As for the outlook for overseas economies, members shared the recognition that, although a pick-up in the growth pace was likely to take some time, their growth rates were projected to rise thereafter -- on the back of the materialization of the effects of macroeconomic policies in each country as well as a pick-up in the manufacturing sector, due mainly to the global cycle for IT-related goods shifting toward a phase of improvement -- and these economies were expected to grow moderately on the whole. Some members expressed the view that there was a growing probability that the global economy, including manufacturing, would follow its recovery trend through the middle of 2020. Nevertheless, a few members noted that downside risks concerning overseas economies remained significant, and the timing and degree of their recovery continued to warrant careful attention.

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, although some weakness had been seen in the manufacturing sector. Many members expressed the recognition that, although production and business fixed investment of manufacturing firms remained relatively weak, the U.S. economy continued to grow, mainly in private consumption, amid a favorable employment and income situation. A few members pointed out that employment and consumption had been firm, and year-end sales had been favorable. As for the outlook, members shared the view that the economy was likely to maintain its moderate expansion, partly underpinned by accommodative financial conditions, although the effects of the U.S.-China trade friction were likely to remain for the time being. Some members noted that the federal funds rate cuts by the Federal Reserve had been exerting positive effects on housing investment and automobile sales and would support the economy going forward.

Members shared the recognition that the European economy remained in the deceleration phase. Some members pointed out that signs of recovery had not been evident, as the situation continued to be severe, particularly in Germany, with the PMI for manufacturing in the euro area remaining below 50. As for the outlook, members concurred that the European economy was likely to gradually move out of its deceleration phase, reflecting the pick-up in the manufacturing sector. A few members noted that close attention should continue to be paid to the effects of the United Kingdom's exit from the EU and developments in the German economy, as these entailed significant uncertainties.

Members agreed that the Chinese economy continued to see stable growth on the whole, but some weakness remained in the manufacturing sector. Nevertheless, many members pointed out that the slowdown seemed to be bottoming out, as evidenced, for example, by the PMI for manufacturing, which had continued to show relatively weak developments thus far, having exceeded 50. As for the outlook, members shared the view that the economy was likely to broadly follow a stable growth path with the authorities implementing macroeconomic policies in an incremental manner, despite being affected to some extent by the trade friction with the United States and the authorities' measures to push forward with deleveraging. A few members expressed the view that the pace of recovery in the Chinese economy was likely to remain moderate as the trade friction with the United States would continue to restrain its growth. One member said that, although signs of stabilizing had started to be observed in the Chinese economy, this could be a short-term development resulting from such factors as the accelerated production ahead of the Lunar New Year holidays, and thus it was necessary to examine the sustainability of this stabilization.

Members shared the recognition that emerging economies maintained their moderate recovery trend on the whole, although some had decelerated. They concurred that, 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, although exports had been relatively weak, especially to China. A few members pointed out that there were growing disparities among those economies, partly stemming from differences in their technological levels and the amount of resources: some continued to decelerate while others benefited from the reorganization of global supply chains. As for the outlook, members agreed that the growth rates of emerging economies were likely to increase on the whole, mainly reflecting the materialization of the effects of macroeconomic policies in each country. A few members said that, although emerging economies were likely to recover moderately, there was a considerable possibility that the sluggishness seen in India and Hong Kong would be prolonged, and thus future developments in emerging economies warranted attention.

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

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

With regard to economic activity, members agreed that the economy had been on a moderate expanding trend, with a virtuous cycle from income to spending operating, although exports, production, and business sentiment had shown some weakness, mainly affected by the slowdown in overseas economies and by natural disasters. A few members noted that it was difficult to be optimistic about developments in economic activity on the whole, as there had been a notable number of somewhat weak economic indicators since October 2019 and the GDP growth rate for the October-December quarter could be significantly negative. Nevertheless, many members pointed out that, as the underlying trend in domestic demand had been firm, Japan's economy was expected to continue on a moderate expanding trend, also taking into account the additional effects of the government's economic measures. A few members said that the government's economic measures were expected to have positive effects that would support the expanding trend in the economy in the medium term through a policy mix with monetary policy.

Regarding recent developments in exports, members concurred that these continued to show some weakness. One member pointed out that, although the relatively weak developments had become prolonged, with the world trade volume remaining low, positive developments also had been observed, such as the uptrend in IT-related exports backed by the progress in global inventory adjustments in IT-related goods. Members shared the view that exports overall were projected to still show some weakness for the time being, mainly in automobile-related and capital goods, while IT-related exports were likely to maintain an uptrend. They continued, however, that exports were expected to return to their moderate increasing trend thereafter with the growth rates of overseas economies rising. Some members pointed out that, at the January 2020 meeting of general managers of the Bank's branches, there were many reports of an anticipated increase in demand related to, for example, the introduction of 5G communication technology and electric vehicles. A few members pointed to the heightening probability that external demand would bottom out in the first half of 2020 and recover moderately through the second half of the year, mainly because semiconductor production had been on a recovery trend. In response, one member said that a pick-up in exports cannot be expected too highly for the time being, in a situation where overseas economies could recover only to a small extent and entailed significant uncertainties.

Members agreed that public investment had increased moderately. They shared the view that it was likely to continue to do so, due to expansion such as in construction related to restoration and reconstruction following natural disasters as well as to national resilience -- which reflected the latest economic measures -- in addition to the progress in construction of temporary facilities for the Olympic Games. A few members said that it might take time for the effects of economic measures to emerge, due to constraints such as labor shortage.

Members concurred that business fixed investment continued on an increasing trend. Many members pointed out that firmness was seen in business fixed investment plans in the December 2019 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), and that firms maintained their proactive stance on investment, as evidenced by their strong appetite for business fixed investment in a wide range of fields, such as labor-saving investment, investment intended for domestic capacity expansion -- including that related to 5G communication technology -- and research and development investment, according to, for example, reports at the January 2020 meeting of general managers of the Bank's branches. Meanwhile, one member noted that, partly because firms' investment stance had become proactive, the resilience of Japan's economy against external shocks had increased.

Regarding the outlook, members concurred that business fixed investment was likely to decelerate temporarily for the time being, mainly for machinery investment by manufacturing firms, due to the effects of the slowdown in overseas economies; however, it was expected to increase moderately from a somewhat longer-term perspective, mainly on the back of accommodative financial conditions. In response, one member said that the trend of the diffusion index for business conditions for nonmanufacturing firms (the proportion of firms responding that business conditions were "favorable" minus the proportion of those responding that they were "unfavorable") in the *Tankan* surveys had been declining moderately, and that the member was concerned as to whether this would lead to a decrease in firms' appetite for business fixed investment. A different member pointed out that attention needed to be paid to the possibility that deceleration in business fixed investment would be prolonged, judging from the developments in leading indicators.

As for the employment and income situation, members shared the recognition that supply-demand conditions in the labor market remained tight, and that employee income had increased. One member said that, although corporate profits had been on a declining trend, it was encouraging that the level of winter bonuses was the same as in 2018. A different member pointed out that, given an estimation suggesting that the share of employees who were engaged in routine tasks was relatively large in Japan compared to that in Europe and the United States, a rise in average wages as well as resolution of a mismatch between jobs and employees could be hampered amid the increasing use of artificial intelligence (AI) and robotic process automation (RPA). On this point, one member said that, although there was concern that AI and RPA would supplant even intellectual work, the member held a relatively optimistic view because machinery had hardly caused any unemployment since the industrial revolution. Meanwhile, as for the signs of an increase in employees' voluntary or early retirement, one member pointed out that, in the current situation where firms' profit levels were high and the employment situation was favorable, it was reasonable that such retirement had increased because firms could provide additional retirement benefits easily and workers could find new jobs smoothly. On this basis, the member expressed the view that, when labor force shifted to places where it was needed more, Japan's overall productivity was likely to rise.

Members concurred that private consumption had been increasing moderately, albeit with fluctuations due to such effects as of the consumption tax hike, against the background of steady improvement in the employment and income situation. Some members expressed the recognition that, although indicators such as the CAI and automobile sales had declined relatively significantly, mainly due to the decline in demand following the tax hike and the effects of natural disasters, it could not be considered that households had gone so far as to permanently lower their propensity to consume, and no significant change had been observed in the underlying trend in private consumption. Some members noted that the effects of the consumption tax hike had been generally within the expected range. A few members said that the current situation surrounding private consumption differed significantly from that at the time of the previous tax hike, in that growth in real employee income was maintained within positive territory. However, one member pointed out that it was necessary to wait for some time for more data to be released in order to examine the recovery in private consumption after the decline in demand following the tax hike and the effects of the tax hike to push down real income. A different member noted that developments in indicators since the tax hike showed that consumption had been weak, and improvement in consumer sentiment had been slow compared to that of the previous tax hike. As for the outlook, members concurred that, although downward pressure on private consumption stemming from the reactionary decline to the increase in demand prior to the tax hike and the decrease in real income was likely to remain for the time being, it was expected to wane gradually, underpinned by various support measures for households and the improvement in the employment and income situation. They also shared the recognition that the decline in private consumption was likely to be limited compared with that of the previous tax hike as the degree of increase in demand prior to the hike this time had been constrained on the whole and the increase in the net burden on households was smaller; thus, an uptrend in private consumption itself was likely to be maintained. On this basis, members agreed that, thereafter, private consumption was expected to continue on a moderate increasing trend, supported in part by the increase in employee income.

Members agreed that housing investment had been more or less flat. As for the outlook, they shared the recognition that, although housing investment was projected to decline temporarily in the short run due to the effects of the consumption tax hike, it was expected to remain more or less flat when fluctuations were smoothed out, underpinned by such factors as the improvement in the employment and income situation as well as low housing loan rates.

Members shared the recognition that industrial production had declined recently, due partly to the effects of natural disasters, with the continued slowdown in overseas economies. Regarding the outlook, they concurred that it was projected to turn to a moderate increase, as the effects of the consumption tax hike would wane and IT-related exports would follow an uptrend for the time being, while an acceleration in production that more than offset the impact of natural disasters would exert upward pressure.

As for prices, members agreed that the year-on-year rate of change in the CPI for all items less fresh food was at around 0.5 percent, and that for all items less fresh food and energy remained within positive territory, in the range of 0.5-1.0 percent, due partly to firms' cautious wage- and price-setting stance. 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 with the economic expansion and tight labor market conditions. One member said that firms continued to make moves toward raising prices at a moderate pace even after the consumption tax hike in October 2019. A different member expressed the recognition that positive price developments continued to be observed, unlike at the time of past tax hikes, as evidenced by the fact, for example, that the year-on-year rate of change in the CPI for all items less fresh food and energy had been rising moderately and that the diffusion index of the share of price-increasing items minus the share of price-decreasing items remained positive. Another member expressed the recognition that, although the situation continued in which prices had not risen easily, mainly reflecting the constraining effects on inflation due to a rise in productivity, the resilience of the economy had been increasing in the sense that it would not go back into deflation.

B. Outlook for Economic Activity and Prices

In formulating the January 2020 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), with regard to the baseline scenario of the outlook for Japan's economic activity, members shared the view that the economy was likely to continue on an expanding trend throughout the projection period -- namely, through fiscal 2021 -- as the impact of the slowdown in overseas economies on domestic demand was expected to be limited, although that impact was likely to remain for the time being. They agreed that, in a situation where the growth pace of overseas economies would take some time to pick up, exports were projected to show some weakness for the time being.

However, members were of the view that exports would return to their moderate increasing trend as the growth rates of overseas economies were expected to rise on the back of the materialization of the effects of macroeconomic policies in each country as well as a pick-up in the manufacturing sector, due mainly to the global cycle for IT-related goods shifting toward a phase of improvement. They shared the recognition that, although domestic demand had declined recently, due mainly to the effects of the consumption tax hike and natural disasters, it 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 active government spending. On this basis, members concurred that the impact of the slowdown in overseas economies on domestic demand was expected to be limited. Based on this discussion, they shared the view that, although Japan's economy had grown at a slower pace than its potential recently, it was expected to see an acceleration in its growth pace thereafter, and thus, on average, the economy was likely to continue growing at about the same pace as its potential or at a somewhat faster pace. On this basis, members agreed that the projected growth rates through fiscal 2021 were higher, mainly for fiscal 2020, than those presented in the October 2019 Outlook Report, reflecting the effects of the government's economic measures.

Members then discussed Japan's price developments. First, they shared the recognition that, basically, the continued relatively weak developments in prices compared to the economic expansion and tight labor market conditions largely had been affected by the deeply entrenched mindset and behavior based on the assumption that wages and prices would not increase easily. Members then agreed that such factors as firms' efforts to absorb upward pressure of costs on prices by raising productivity, technological progress in recent years, and high wage elasticity of labor supply had allowed firms to maintain their cautious stance toward raising prices, even amid the economic expansion.

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 throughout the projection period, despite such effects as of the past decline in crude oil prices for the time being. One member pointed out that, as a positive output gap pushes up prices for the immediate future, which simultaneously brings about the secondary effect of raising inflation expectations in an adaptive manner, it was appropriate to assess the impact of the output gap on prices in terms of the "area" calculated by multiplying the degree of the positive gap by its duration. A few members expressed the view that, although a virtuous cycle from income to spending had supported price rises, in order to maintain this cycle, it was necessary to continue raising wages as well as improve corporate profits to encourage such continuous wage increases. One of these members said that, if firms' profits that had been allocated as internal reserves were not spent on wages and business fixed investment to a greater extent, the economic growth rate and inflation rate would not rise easily. One member commented that, for the time being, it was important to persistently wait for the inflation rate to accelerate in a situation where the positive output gap was maintained, while examining economic indicators such as those of employment and business fixed investment. Most members agreed that, comparing the projections through fiscal 2021 with those presented in the October 2019 Outlook Report, the projected rates of increase in the CPI were more or less unchanged.

Members then outlined the mechanism through which the year-on-year rate of change in the CPI would increase gradually toward 2 percent, based on the main factors that determine general price inflation. Most members shared the view that, although the output gap recently had narrowed within positive territory due to such effects as of the slowdown in overseas economies and the consumption tax hike, it was likely to widen moderately thereafter through the end of the projection period, as the economic growth rate was expected to exceed its potential somewhat. Most members then shared the recognition that medium- to long-term inflation expectations were likely to follow an increasing trend and gradually converge to 2 percent. As background to this, these members pointed to the following: (1) in terms of the adaptive component, a rise in the observed inflation rate was likely to push up inflation expectations, and (2) in terms of the forward-looking component, the Bank would pursue monetary easing through its strong commitment to achieving the price stability target, which would be effective in pushing up inflation expectations. In relation to this, one member pointed out that the mechanism had been operating in which a positive output gap results in increases in prices and inflation expectations, but the paces had been slow. The member then said that, taking into account research results at home and abroad, it was necessary to continue to examine thoroughly the inflation formation mechanism. Meanwhile, one member stated that the possibility of the year-on-year rate of change in the CPI increasing toward 2 percent going forward was low, making it difficult to say that the momentum toward achieving the price stability target was maintained.

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) effects of the 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 had decreased somewhat, mainly due to progress in the U.S.-China trade negotiations and in the United Kingdom's exit from the EU. However, they shared the view that the downside risks seemed to remain significant because the United States and China still had points of disagreement in their trade negotiations, geopolitical risks surrounding the situation in the Middle East had heightened recently, and developments such as in emerging economies and in global demand for IT-related goods continued to warrant attention. Members added that it therefore was necessary to pay close attention to the impact of these downside risks on firms' and households' sentiment in Japan. As for the effects of the October 2019 consumption tax hike, they agreed that fluctuations in demand prior to and after the tax hike seemed to have been constrained this time compared with those of the previous tax hike in 2014, partly due to various measures implemented by the government. On this basis, members shared the view that, although the impact of a decline in real income was expected to be smaller than that of the previous tax hike, it continued to warrant attention as it was likely to depend on consumer sentiment, the employment and income situation, and developments in prices. Meanwhile, a few members stated that risks regarding economic activity at home and abroad remained significant, and it was necessary to carefully assess, for example, the propensity to consume after the consumption tax hike, sustainability of favorable developments in financial markets, and developments in the decoupling of the manufacturing and nonmanufacturing sectors. Based on this discussion, members concurred that, with regard to the outlook for economic activity, risks were skewed to the downside, particularly regarding developments in overseas economies.

As for upside and downside risks to prices, members agreed that, as discussed earlier, with regard to risks to economic activity, the downside risks concerning overseas economies in particular seemed to be still significant, and if these risks materialized, there was a possibility that prices also would be affected to some extent. They also pointed to the following three specific factors that could exert upside and downside risks to prices: (1) developments in medium- to long-term inflation expectations; (2) the responsiveness of prices to the output gap; and (3) developments in foreign exchange rates and international commodity prices. With regard to the first factor, members agreed that, although medium- to long-term inflation expectations were likely to follow an increasing trend, there was a risk that such a rise would be delayed through the adaptive formation mechanism if it took longer than projected for firms' stance to shift toward further raising wages and prices and the observed inflation rate consequently remained relatively sluggish. A few members said that these members were paying close attention to whether some weakness in short-term inflation expectations would not affect medium- to long-term inflation expectations. Based on this discussion, members shared the recognition that, regarding the outlook for prices, risks to prices were skewed to the downside, mainly due to the downside risks to economic activity and uncertainties over developments in medium- to long-term inflation expectations.

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

Based on the above assessment of economic and financial developments, members discussed monetary policy for the immediate future.

Regarding the Bank's basic stance on conducting monetary policy, most members shared the recognition that it was appropriate to persistently continue with the current powerful monetary easing as -- with the output gap remaining positive -- the momentum toward achieving 2 percent inflation was maintained and there had been no further increase in the possibility that such momentum would be lost. These members added that, at the same time, downside risks to economic activity and prices warranted attention and it would take time to achieve the 2 percent price stability target. Many members said that it was necessary to maintain the highly accommodative financial conditions under the current policy while taking account of developments in economic activity and prices as well as financial conditions, so that the positive output gap would be maintained for as long as possible. A few members stated that the Bank should persistently continue with the current monetary policy stance with the aim of continuously encouraging the virtuous cycle of the economy to take hold and thereby achieving the price stability target, given, for example, that it was taking time to raise inflation expectations. Meanwhile, one member expressed the opinion that the momentum toward achieving the price stability target already had been lost, and thus it was necessary to take additional easing measures.

Most members shared the view that, since the possibility that the momentum toward achieving the price stability target would be lost continued to warrant attention, it was appropriate to maintain a policy stance of being tilted toward monetary accommodation. One member pointed out that, among advanced economies, Japan was exceptional in that it succeeded in raising the inflation rate after the global financial crisis, but its economy had been in secular stagnation where low growth, low inflation, and low interest rates had lasted for a long period -- the so-called Japanification -- and the risk that it might fall into deflation again continued to warrant attention. On this basis, the member said that it was necessary to be prepared for a possible economic downturn as one of the risk scenarios, and that it would become more important to enhance cooperation with the government in terms of fiscal and growth policies.

Members also deliberated over points to take into account in conducting monetary policy in the future. Some members pointed out that, although the financial system had been stable on the whole, attention should continue to be paid to the balance between the cumulative effects and side effects of the prolonged low interest rate environment. One of these members said that, taking into account the amount of time that had passed since the Bank introduced its powerful monetary easing policy, it was becoming more important to continuously make efforts to enhance the sustainability of the policy while considering the balance between the cumulative effects and side effects. A different member noted that, given that the effects of structural problems and the low interest rate environment continued to accumulate, it was necessary to closely monitor the business conditions of regional financial institutions as well as their efforts made regarding corporate management.

One member said that, although a decline in interest rates reduced interest income of households, which were net depositors, it had positive effects on firms, which were net borrowers, by curbing their interest payment costs, and on households, by bringing about improvement in the employment and income situation. On this basis, the member commented that, ultimately, importance was placed on the utilization rates of labor and capital in the economy as a whole, and in this sense the current monetary policy had exerted its intended effects since employment had expanded and household income as well as corporate profits had increased. A different member, noting that the amount outstanding calculated by subtracting firms' deposits from their borrowings had decreased by about 20 percent during the last decade, pointed to the possibility that the effects of a further decline in interest rates on economic activity and prices would be limited.

In addition, one member said that, as a side effect of negative interest rates, some pointed to the possibility of a decline in inflation expectations due to households' and firms' views on the future becoming more cautious. This member also noted that there had been an overheating in the housing market behind the Sveriges Riksbank's termination of its negative interest rate policy in December 2019. In response, some members noted that, while the impact of the prolonged low interest rate environment -- such as on the functioning of financial intermediation -- warranted attention, Sweden's underlying economic and price developments differed from Japan's, in that its inflation rate had been close to the 2 percent target since 2017.

With regard to account maintenance fees, a few members expressed the recognition that the issue was how to balance the service contents and their fair value. These members then pointed out that this issue should be distinguished from the discussion over the effects and side effects of monetary policy.

As for other points to take into account, a few members said that discussions about reviewing central banks' policy frameworks had become active among overseas central banks, and that it was necessary for the Bank to consider their implications for Japan while following developments in these discussions as appropriate. A different member pointed out that, as was the case in Europe and the United States, it would be necessary to review monetary policy in Japan, where low growth and low inflation had been prolonged, while taking account of fiscal policy and growth strategy.

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

On this point, one member expressed the opinion that, since allowing the long-term yields to move to some extent was ambiguous as the guideline for market operations decided by the Policy Board, these yields could rise more than necessary, depending on the Bank's conduct of market operations, which could hamper the intended effects of the current yield curve control. A different member was of the opinion that it was desirable for the Bank to strengthen monetary easing by lowering the short-term policy interest rate.

With regard to <u>asset purchases other than JGB purchases</u>, 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 <u>the Bank's thinking behind its future conduct of monetary policy</u>, 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, expect short- and long-term interest rates to remain at their present or lower levels as long as it was necessary to pay close attention to the possibility that the momentum toward achieving the price stability target would be lost; (4) examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target; and (5) in particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, were significant, not hesitate to take additional easing measures if there was a greater possibility that the momentum toward achieving the price stability target would be lost.

On this point, one member was of the opinion that, in order to achieve the price stability target of 2 percent at the earliest possible time, further coordination of fiscal and monetary policy was necessary, and that it was appropriate for the Bank to revise the forward guidance for the policy rates to make it a powerful one that specifically relates to the price stability target.

IV. Remarks by Government Representatives

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

(1) The government had decided to include fiscal spending totaling about 13 trillion yen in the Comprehensive Economic Measures to Create a Future with Security and Growth decided by the Cabinet on December 5, 2019. With a view to implementing, for example, these economic measures, it submitted to the Diet on January 20, 2020, the supplementary budget for fiscal 2019 totaling about 4.5 trillion yen.

(2) On the same day, the government also submitted to the Diet the budget for fiscal 2020, with a total amount of 102.7 trillion yen, which represented revenues and expenditures in the general account. The budget was intended to address (1) the steady implementation of free early childhood education and childcare as well as free higher education toward constructing a social security system for all generations financed by the additional revenue from the consumption tax hike and (2) the implementation of temporal and special measures, including the point reward program for cashless payments and measures to stimulate consumption using the My Number scheme ("My Number Card"), in order to carry out the Comprehensive Economic Measures. Moreover, the government had reviewed all expenditure items included in the budget. With regard to the budget for general expenditures, for example, the government aimed to achieve both economic revitalization and fiscal consolidation by continuing to undertake expenditure reforms, including those needed to reach the benchmarks set in

the New Plan to Advance Economic and Fiscal Revitalization. The government would work to obtain approval from the Diet for the supplementary budget for fiscal 2019 and the budget for fiscal 2020 at the earliest possible time so that it could do its utmost with regard to economic and fiscal management.

(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, although weakness, mainly in manufacturing, was more evident while exports continued to be somewhat weak. 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, attention should be paid to developments in overseas economies -- including those in trade friction, prospects for the Chinese economy, the consequence of the United Kingdom's exit from the EU, and developments surrounding the Middle East -- and their effects on financial markets, as well as developments in consumer sentiment.

(2) The government had formulated the Comprehensive Economic Measures to Create a Future with Security and Growth at the end of 2019. It would work toward promptly obtaining approval from the Diet for the related supplementary budget for fiscal 2019 and the budget for fiscal 2020 so that the effects of the economic measures would be realized smoothly and steadily. In addition, the government had provided an interim report on the Planning Meeting on a Social Security System Oriented to All Generations at the end of 2019, which included such initiatives as expanding the scope of the enrollment in the welfare pension and securing employment opportunities up to the age of 70. Going forward, it would work further on detailed reviews to prepare for compiling the final report this summer.

(3) The government released the Economic and Fiscal Projections for Medium- to Long-Term Analysis on January 17, 2020. In the Economic Growth Achieved Case, the projections showed that nominal GDP would reach 600 trillion yen by the end of fiscal

2022 and that a primary balance surplus would be achieved in fiscal 2027. Thus, by pushing forward with steady expenditure reforms, the achievement of the primary balance surplus in fiscal 2025 was expected to come into sight. The government would continue to steadily push forward with its growth strategy and efforts such as expenditure reforms at the same time.

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

V. Votes

A. Vote on the Guideline for Market Operations

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

The Policy Board decided the proposal by a majority vote.

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

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

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

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

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. FUNO Yukitoshi, Mr. SAKURAI Makoto, Ms. MASAI Takako, and Mr. SUZUKI Hitoshi.

Votes against the proposal: Mr. HARADA Yutaka and Mr. KATAOKA Goushi.

Mr. 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. Kataoka dissented, considering that it was desirable to strengthen monetary easing by lowering the short-term policy interest rate.

B. Vote on the Guideline for Asset Purchases

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

The Policy Board decided the proposal by a unanimous vote.

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. HARADA Yutaka, Mr. FUNO Yukitoshi, Mr. SAKURAI Makoto, Ms. MASAI Takako, Mr. SUZUKI Hitoshi, and Mr. KATAOKA Goushi.

Votes against the proposal: None.

C. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. Mr. Kataoka expressed the opinion that, in order to achieve the price stability target of 2 percent at the earliest possible time, further coordination of fiscal and monetary policy was necessary, and that it was appropriate for the Bank to revise the forward guidance for the policy rates to make it a powerful one that specifically relates to the price stability target.

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

VI. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the January 2020 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 22. Mr. 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. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. HARADA Yutaka, Mr. FUNO Yukitoshi, Mr. SAKURAI Makoto, Ms. MASAI Takako, and Mr. SUZUKI Hitoshi.

Votes against the proposal: Mr. KATAOKA Goushi.

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of December 18 and 19, 2019, for release on January 24, 2020.

Attachment
January 21, 2020
Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided upon the following.

   (1) Yield curve control

   The Bank decided, by a 7-2 majority vote, to set the following guideline for market operations for the intermeeting period. [Note 1]

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

   The long-term interest rate:
   The Bank will purchase Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.[6] With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion yen.

   (2) Guidelines for asset purchases

   With regard to asset purchases other than JGB purchases, the Bank decided, by a unanimous vote, to set the following guidelines.

   a) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank may increase or decrease the amount of purchases depending on market conditions.

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

b) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

2. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. As for the policy rates, the Bank expects short- and long-term interest rates to remain at their present or lower levels as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability target will be lost. It will examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target. In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost. [Note 2]

[Note 1] Voting for the action: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. FUNO Yukitoshi, Mr. SAKURAI Makoto, Ms. MASAI Takako, and Mr. SUZUKI Hitoshi. Voting against the action: Mr. HARADA Yutaka and Mr. KATAOKA Goushi. Mr. 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. Kataoka dissented, considering that it was desirable to strengthen monetary easing by lowering the short-term policy interest rate.

[Note 2] In order to achieve the price stability target of 2 percent at the earliest possible time, Mr. Kataoka dissented, considering that further coordination of fiscal and monetary policy was necessary, and that it was appropriate for the Bank to revise the forward guidance for the policy rates to make it a powerful one that specifically relates to the price stability target.