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June 19, 2020

Bank of Japan

Minutes of the Monetary Policy Meeting

on May 22, 2020

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

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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 Friday, May 22, 2020, from 9:00 a.m. to 9:54 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. FUNO Yukitoshi

Mr. SAKURAI Makoto

Ms. MASAI Takako

Mr. SUZUKI Hitoshi

Mr. KATAOKA Goushi

Mr. ADACHI Seiji

Government Representatives Present

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

Mr. MIYASHITA Ichiro, State Minister of Cabinet Office, Cabinet Office

Reporting Staff

Mr. UCHIDA Shinichi, Executive Director

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

Mr. FUJITA Kenji, Deputy Director-General, Monetary Affairs Department

Secretariat of the Monetary Policy Meeting

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

¹ The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on June 15 and 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.

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

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

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

Mr. YANO Masayasu, Head of Policy Infrastructure Division, Monetary Affairs
Department

Mr. NAGANO Teppei, Senior Economist, Monetary Affairs Department

Mr. TSUCHIKAWA Akira, Director, Deputy Head of Policy Infrastructure Division,
Monetary Affairs Department

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

I. Remarks on the Purpose of This Unscheduled Monetary Policy Meeting

The chairman first provided the following explanation for calling an unscheduled Monetary Policy Meeting for today.

- (1) At the Monetary Policy Meeting held on April 27, 2020, with the aim of further supporting financing mainly of small and medium-sized firms, the chairman instructed the staff to swiftly consider a new measure to provide funds to financial institutions, taking account, for example, of the government's programs to support financing, such as those in its emergency economic measures, and report back at a later Monetary Policy Meeting.
- (2) In accordance with Article 17, paragraph 3 of the Bank of Japan Act, the chairman had decided to call an unscheduled Monetary Policy Meeting for today to receive the staff's report and discuss monetary control matters based on it.

II. Staff Proposal regarding a New Fund-Provisioning Measure and Related Measures

The Bank's staff reported the result of deliberations on a new fund-provisioning measure, which were conducted in response to the instruction by the chairman at the Monetary Policy Meeting held on April 27, 2020, as follows. Under this measure, the Bank could provide funds to eligible counterparties against pooled collateral for up to 1 year at the loan rate of 0 percent with the maximum amounts outstanding of eligible loans reported by those counterparties, twice as much as the amounts outstanding of the loans could be included in the Macro Add-on Balances in current accounts held by financial institutions at the Bank, and a positive interest rate of 0.1 percent could be applied to the outstanding balances of current accounts held by financial institutions at the Bank corresponding to the amounts outstanding of loans provided through this measure. Eligible loans could be (1) interest-free and unsecured loans based on the government's emergency economic measures and loans guaranteed by the credit guarantee corporations in response to the novel coronavirus (COVID-19) (loans based on the government's programs), and (2) loans equivalent to (1) in terms of loan conditions. The amount outstanding of eligible loans could be about 30 trillion yen. Member financial institutions of central organizations of financial cooperatives could also be included as eligible counterparties, and this measure and the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) (Special Operations) could be conducted in an integrated manner.

Moreover, the Bank could extend the duration of the Special Operations and additional purchases of CP and corporate bonds by 6 months and continue to conduct them until the end of March 2021, in tandem with the introduction of the new measure.

If these details were to be decided at this meeting, the staff would proceed with necessary preparations so that the Bank could begin providing funds through the new measure in June, taking into account loans made by financial institutions as of end-May.

III. Summary of Discussions by the Policy Board

Members concurred that, with a view to supporting financing mainly of firms, it was appropriate for the Bank to introduce a new fund-provisioning measure and extend the duration of the measures to support financing by 6 months, as proposed by the staff.

Regarding the new fund-provisioning measure, one member pointed out that, to further support financing mainly of small and medium-sized firms, it was important to include as eligible counterparties member financial institutions of central organizations of financial cooperatives, which have a high ratio of loans to small and medium-sized firms to total loans, from the start of the measure's implementation. The member added that, considering recent economic and financial developments, it would be of great significance to swiftly introduce the new fund-provisioning measure by holding this unscheduled meeting. A different member expressed the opinion that it was appropriate for the Bank, through this new measure, to further encourage private financial institutions to make greater efforts in extending interest-free and unsecured loans based on the government's emergency economic measures.

As for the duration of the measures to support financing, some members pointed to the possibility that the impact of the spread of COVID-19 would last and that it would be necessary for the Bank to continue to support financing mainly of firms for quite a long period. Given this possibility, these members expressed the view that it was appropriate for the Bank to extend the duration, just in case. A few of these members were of the view that it also was necessary to pay close attention to the risk that firms' capital would be impaired or their loans would become nonperforming if the impact of COVID-19 lasted for a prolonged period.

Members then shared the recognition that it was important for the Bank to clearly explain the measures that it had adopted in response to the spread of COVID-19, including

the new fund-provisioning measure, so as to cultivate better understandings of market participants and the public. Some members said that the measures could be explained by referring to the following as a special program to support financing in response to the spread of COVID-19 with a total size of about 75 trillion yen: purchases of CP and corporate bonds (maximum amount outstanding: about 20 trillion yen) and the Special Operations (fund-provisioning against private debt pledged to the Bank as collateral: about 25 trillion yen [as of end-April]), coupled with the new fund-provisioning measure (fund-provisioning against eligible loans: about 30 trillion yen). One of these members commented that it was necessary for the Bank to clarify that the targets of its measures to support financing were wide-ranging, from large firms to sole proprietors. In addition, a different member expressed the view that the measures taken to enhance monetary easing since March could be categorized into three, as follows: (1) the aforementioned special program aimed at supporting financing mainly of firms; (2) provision of ample yen and foreign currency funds without setting upper limits, with a view to maintaining stability in financial markets; and (3) active purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs).

With respect to monetary policy for the immediate future, members agreed that it was desirable to focus the discussions at this meeting on points relating to the aforementioned staff proposal and thoroughly deliberate on other points at the next Monetary Policy Meeting, scheduled for June 15 and 16, upon reexamining developments in economic activity and prices as well as financial conditions.

IV. Remarks by Government Representatives

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

- (1) The government recognized that the Bank's new fund-provisioning measure would actively provide funds to private financial institutions that made interest-free and unsecured loans based on measures to support financing implemented by the government, and assessed it as a new form of cooperation between the government and the Bank. The government deemed that referring to the overall framework of the Bank's measures to support financing as the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) would be effective in terms of communication to the public.

- (2) The government had been swiftly implementing the emergency economic measures with a scale of 117 trillion yen and the first supplementary budget for fiscal 2020, providing strong measures for supporting financing of firms with the total amount of 45 trillion yen, including schemes enabling interest-free loans without collateral through both government-affiliated and private financial institutions. Furthermore, based on the directions by the prime minister, the second supplementary budget was under compilation, including measures to strengthen financial functions such as increasing liquidity support and making use of quasi-capital instruments.
- (3) The government expected that the Bank would continue to do its utmost mainly to ensure smooth corporate financing and maintain stability in financial markets, and also to work toward achieving the price stability target.

The representative from the Cabinet Office made the following remarks.

- (1) The real GDP growth rate for the January-March quarter of 2020 was minus 0.9 percent on a quarter-on-quarter basis (minus 3.4 percent on an annualized basis), indicating that the Japanese economy was in a severe situation. As private consumption, for example, had become more severe since the declaration of a state of emergency and as overseas economies remained weak, the Japanese economy was expected to face a significant economic downturn for the time being. Careful attention should also be paid to the risk that domestic and overseas economies would deteriorate further due to the spread of COVID-19.
- (2) The government had been swiftly implementing the emergency economic measures and the first supplementary budget for fiscal 2020. In addition, based on the directions by the prime minister, the government would compile swiftly the second supplementary budget with the aim of promptly submitting it to and obtaining approval from the Diet, and respond flexibly while closely monitoring the impact of COVID-19 on the Japanese economy and people's livelihoods.
- (3) The government recognized that the Bank's new fund-provisioning measure would firmly support the government's economic measures to support financing from the Bank's side. It expected the Bank to continue conducting appropriate monetary policy while closely monitoring current and future developments.

- (4) The government expected that the Bank would continue to cooperate closely with the government while sharing a sense of crisis.

V. Votes

A. Vote on "Amendment to 'Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)'"

Members voted unanimously to approve "Amendment to 'Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)," which represented the aforementioned staff proposal.

B. Vote on the Guideline for Market Operations

The chairman formulated a proposal on the guideline for market operations to maintain the guideline decided at the previous Monetary Policy Meeting held on April 27, and put it to a vote.

The Policy Board decided the proposal by a majority vote.

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

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

1. The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.
2. The Bank will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.

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

Votes against the proposal: Mr. KATAOKA Goushi.

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

C. Vote on the Guideline for Asset Purchases

The chairman formulated the following proposal on the guideline for asset purchases and put it to a vote: to extend the duration of the increase in purchases of CP and corporate bonds as proposed by the staff, and with regard to asset purchases other than these purchases, to maintain the guideline decided at the previous Monetary Policy Meeting held on April 27.

The Policy Board decided the proposal by a unanimous vote.

The Chairman's Policy Proposal on the Guideline for Asset Purchases:

The guideline for asset purchases other than JGB purchases will be as follows.

1. In principle, the Bank will purchase ETFs and J-REITs so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, it may increase or decrease the amount of purchases depending on market conditions. For the time being, the Bank will actively purchase these assets so that their amounts outstanding will increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively.
2. As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2 trillion yen and about 3 trillion yen, respectively. In

addition, until the end of March 2021, it will conduct additional purchases with the upper limit of the amounts outstanding of 7.5 trillion yen for each asset.

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

Votes against the proposal: None.

VI. Discussion on the Statements Entitled "Introduction of a New Fund-Provisioning Measure to Support Financing Mainly of Small and Medium-Sized Firms" and "Statement on Monetary Policy"

On the basis of the above discussions, the chairman formulated the two statements "Introduction of a New Fund-Provisioning Measure to Support Financing Mainly of Small and Medium-Sized Firms" and "Statement on Monetary Policy," and put them to a vote. The Policy Board decided the text of each by a unanimous vote. It was confirmed that the statements would be released immediately after the meeting (see Attachments 1-3).

VII. Timing for Approval of the Minutes of the Monetary Policy Meeting and Treatment of the Summary of Opinions

It was confirmed that the minutes of this meeting would be approved at the next Monetary Policy Meeting to be held on June 15 and 16, 2020, for release on June 19. It also was confirmed that a Summary of Opinions for this meeting would not be compiled -- notwithstanding the stipulations of the Rules concerning Policy Board Meetings -- given that there was limited time before the next meeting, when the minutes of this meeting would be released, and that today's discussions had been focused solely on the staff proposal.

**Introduction of a New Fund-Provisioning Measure
to Support Financing Mainly of Small and Medium-Sized Firms**

1. At the Monetary Policy Meeting (MPM) held in April, the Policy Board of the Bank of Japan instructed to swiftly consider a new fund-provisioning measure to further support financing mainly of small and medium-sized firms, with a view to addressing the spread of the novel coronavirus (COVID-19). At the unscheduled MPM held today, it decided upon the details by a unanimous vote (see Attachment 2).
2. The Bank already has implemented the following two measures to support financing mainly of firms: (1) purchases of CP and corporate bonds (maximum amount outstanding: about 20 trillion yen) and (2) the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) (fund-provisioning against private debt pledged as collateral: about 25 trillion yen <as of end-April>). Today, as a third measure, a new fund-provisioning measure was introduced (fund-provisioning against eligible loans such as interest-free and unsecured loans made by eligible counterparties based on the government's emergency economic measures: about 30 trillion yen). The Bank will refer to these three measures as the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) (the Special Program: total size of about 75 trillion yen). The Policy Board decided, by a unanimous vote, to extend the duration of these measures by 6 months and continue to conduct them until the end of March 2021.
3. In addition, with a view to maintaining stability in financial markets, the Bank has been providing ample yen and foreign currency funds without setting upper limits mainly through purchases of Japanese government bonds (JGBs) and the conduct of the U.S. dollar funds-supplying operations, and has been actively purchasing exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs).
4. By conducting these measures, the Bank will continue to support financing mainly of firms and to maintain stability in financial markets. On this basis, it will closely monitor the impact of COVID-19 for the time being and will not hesitate to take additional easing measures if necessary.

New Fund-Provisioning Measure

1. Overview

The Bank will provide funds to eligible counterparties against pooled collateral for up to 1 year at the loan rate of 0 percent with the maximum amounts outstanding of eligible loans reported by those counterparties.

2. Eligible Loans

(1) Loans based on the government's programs

Interest-free and unsecured loans based on the government's emergency economic measures and loans guaranteed by the credit guarantee corporations in response to COVID-19

(2) Loans equivalent to 2. (1)

Loans to small and medium-sized firms affected by COVID-19 which are equivalent to 2. (1) in terms of loan conditions (the maximum amount for each eligible counterparty: 100 billion yen)

3. Addition to the Macro Add-on Balances

Twice as much as the amounts outstanding of the loans will be included in the Macro Add-on Balances in current accounts held by financial institutions at the Bank.

4. Application of a Positive Interest Rate to Current Account Balances

A positive interest rate of 0.1 percent will be applied to the outstanding balances of current accounts held by financial institutions at the Bank corresponding to the amounts outstanding of loans provided through this measure.

5. Eligible Counterparties

Member financial institutions of central organizations of financial cooperatives will also be included.

6. Timing of Implementation

The Bank's fund-provisioning through this measure will start in June, taking into account loans made by financial institutions as of end-May.

7. Others

This measure and the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) will be conducted in an integrated manner.

Statement on Monetary Policy ^[Note 1]

At the Monetary Policy Meeting (MPM) held today, the Policy Board of the Bank of Japan decided upon the following guidelines for market operations and asset purchases.

1. Yield Curve Control

The Bank decided, by an 8-1 majority vote, to set the following guideline for market operations for the intermeeting period. ^[Note 2]

The short-term policy interest rate:

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

The long-term interest rate:

The Bank will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.²

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.

- (1) The Bank will actively purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) for the time being so that their amounts outstanding will increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively.³

² In case of a rapid increase in the yields, the Bank will purchase JGBs promptly and appropriately.

³ As for the guideline for purchases of ETFs and J-REITs, in principle, "the Bank will purchase these assets so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank may increase or decrease the amount of purchases depending on market conditions."

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

^[Note 1] Regarding this MPM, the Summary of Opinions will not be compiled, but the minutes will be released on June 19 following the approval at the MPM that is scheduled to be held on June 15 and 16.

^[Note 2] Voting for the action: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. FUNO Yukitoshi, Mr. SAKURAI Makoto, Ms. MASAI Takako, Mr. SUZUKI Hitoshi, and Mr. ADACHI Seiji. Voting against the action: Mr. KATAOKA Goushi. Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, in response to a possible increase in downward pressure on prices and with the aim of alleviating firms' and households' interest burden.