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November 4, 2020

Bank of Japan

Minutes of the Monetary Policy Meeting

on September 16 and 17, 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 Wednesday, September 16, 2020, from 2:00 p.m. to 3:40 p.m., and on Thursday, September 17, from 9:00 a.m. to 11:44 a.m.[1]

Policy Board Members Present

Mr. KURODA Haruhiko, Chairman, Governor of the Bank of Japan
Mr. AMAMIYA Masayoshi, Deputy Governor of the Bank of Japan
Mr. WAKATABE Masazumi, Deputy Governor of the Bank of Japan
Mr. SAKURAI Makoto
Ms. MASAI Takako
Mr. SUZUKI Hitoshi
Mr. KATAOKA Goushi
Mr. ADACHI Seiji
Mr. NAKAMURA Toyoaki

Government Representatives Present

Mr. SAKATA Wataru, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance
Mr. TAWA Hiroshi, Vice-Minister for Policy Coordination, Cabinet Office[2]
Mr. IBARAGI Hideyuki, Deputy Director General for Economic and Fiscal Management, Cabinet Office[3]

Reporting Staff

Mr. UCHIDA Shinichi, Executive Director
Ms. SHIMIZU Tokiko, Executive Director (Assistant Governor)
Mr. KAIZUKA Masaaki, Executive Director
Mr. SHIMIZU Seiichi, 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 October 28 and 29, 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] Mr. Tawa was present on September 17.

[3] Mr. Ibaragi was present on September 16.

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

Mr. OTANI Akira, Director-General, Financial Markets Department

Mr. KAMEDA Seisaku, Director-General, Research and Statistics Department

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

Mr. FUKUMOTO Tomoyuki, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. NAKAJIMA Takeshi, Director-General, Secretariat of the Policy Board

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

Mr. HIGASHI Masato, Senior Economist, Monetary Affairs Department

Mr. KADOGAWA Yoichi, 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 July 14 and 15, 2020, the Bank had been conducting purchases of Japanese government bonds (JGBs).[5] In this situation, 10-year JGB yields had been at around 0 percent, and the shape of the JGB yield curve had been consistent with the guideline for market operations.

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

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments generally had been in negative territory. The uncollateralized overnight call rate had been in the range of around minus 0.01 to minus 0.07 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had declined somewhat.

The Nikkei 225 Stock Average had risen, following a rise in U.S. stock prices that mainly reflected heightened expectations for recovery in business performance and stronger-than-expected economic indicators. Long-term interest rates had been at around 0 percent under yield curve control. As for liquidity in the JGB market, a comparison of the August 2020 *Bond Market Survey* with the May survey showed that the diffusion index (DI) for the degree of bond market functioning (the proportion of institutions responding that bond market functioning was "high" minus the proportion of those responding that it was "low") had improved largely, while remaining in negative territory. In the foreign exchange market, the

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

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

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

yen had been appreciating somewhat against the U.S. dollar, whereas it had been depreciating against the euro, mainly on the back of agreement on the establishment of the European Union (EU) Recovery Fund.

C. Overseas Economic and Financial Developments

Overseas economies had started to pick up from a state of significant depression. Looking at real GDP for the April-June quarter of 2020 for each economy, which was released during the intermeeting period, many economies experienced record plunges, which reconfirmed that overseas economies had been depressed significantly due to the spread of COVID-19 and measures such as lockdowns. Looking at subsequent developments, business sentiment had improved, mainly due to a resumption of economic activity, the materialization of pent-up demand, and a recovery in production from the decline brought about by COVID-19. In addition, global production and the world trade volume had rebounded recently. On the other hand, a clear pick-up in overseas economies had not been observed yet, as evidenced by the fact that, for example, the pace of increase in services consumption in some countries and regions, such as the United States, had been only moderate through summer with the number of confirmed COVID-19 cases increasing. With regard to the outlook, as the impact of COVID-19 waned gradually, overseas economies were likely to pick up, partly supported by aggressive macroeconomic policies in each country and region. Nevertheless, the pace was expected to be only moderate for the time being. In addition, there remained extremely high uncertainties over the consequences of COVID-19 and the magnitude of their impact on overseas economies.

With regard to developments in overseas economies by region, the U.S. economy had started to pick up from a state of significant depression. Private consumption also had started to pick up, mainly for goods consumption, reflecting in particular the government's measures to compensate for the decline in household income and the materialization of some pent-up demand, although services consumption had been at a low level, partly due to the surge in the number of confirmed COVID-19 cases through summer. Housing investment had increased, partly due to the materialization of pent-up demand, with mortgage rates marking a record low. Business fixed investment remained depressed on the whole, mainly reflecting a decline in corporate profits, although machinery investment had picked up in part.

The European economy had started to pick up from a state of significant depression. In the euro area, private consumption had started to pick up, mainly for goods consumption, reflecting in particular an increase in governments' subsidies for purchasers of automobiles and the materialization of some pent-up demand, although services consumption had been at a low level, partly due to the recent increase in the number of confirmed COVID-19 cases. Exports and production had also turned to a pick-up. Business fixed investment had picked up in part but remained depressed on the whole, mainly reflecting a decline in corporate profits.

The Chinese economy had recovered due to the emergence of the effects of aggressive macroeconomic policies and the materialization of pent-up demand. Exports had increased. Private consumption had picked up on the whole owing to the materialization of pent-up demand, although the impact of COVID-19 remained in part. Fixed asset investment continued to increase with the emergence of the effects of aggressive macroeconomic policies.

Emerging economies other than China remained depressed, although a pick-up had been seen in part. As for the NIEs and the ASEAN countries, exports and production had picked up, although domestic demand had been depressed. The economies of India, Brazil, and Russia also continued to be depressed amid the spread of COVID-19.

With respect to overseas financial markets, stock prices remained on an uptrend throughout the intermeeting period, mainly supported by expectations for early development of a vaccine and some favorable economic indicators. U.S. long-term interest rates had risen somewhat. In the foreign exchange market, the U.S. dollar had been depreciating slightly, as market participants factored in a prolonged low interest rate policy by the Federal Reserve, while currencies in emerging economies were more or less unchanged on the whole with depreciation seen in some of them. Meanwhile, crude oil prices had declined since the start of September, partly reflecting adjustments in U.S. stock prices.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had started to pick up with economic activity resuming gradually, although it remained in a severe situation due to the impact of COVID-19 at home and abroad. With this resumption, the economy was likely to follow a moderate improving trend through the materialization of pent-up demand and supported by accommodative financial conditions and the government's economic measures.

Exports and industrial production had turned to a pick-up, reflecting developments in overseas economies. Looking at real exports by goods, automobile-related exports had turned to a pick-up against the background of a recovery in selling of automobiles in the United States, Europe, and China. IT-related exports had increased, mainly for parts for data centers and those related to personal computers. On the other hand, capital goods exports had been depressed, particularly of metalworking machinery and construction machines, reflecting a global postponement of business fixed investment. As for the outlook, exports and production were likely to continue picking up as the impact of COVID-19 waned worldwide.

Private consumption had picked up gradually on the whole, although consumption of services, such as eating and drinking as well as accommodations, remained at a low level. As for goods consumption, selling of automobiles had increased for three consecutive months since June and recently recovered to the level seen at the start of this year. That of household electrical appliances had been on a pick-up trend, partly reflecting people spending more time at home and the effects of the provision of special cash payments. In addition, food and daily necessities, for example, remained firm on the back of an expansion in stay-at-home consumption, although their rates of increase had decelerated compared to a while ago. Services consumption had shown a pick-up from the bottom hit in the April-May period, when the state of emergency was in place, but the pace remained slow, due in part to an increase in the number of confirmed COVID-19 cases since July. The level of such consumption remained low, mainly for face-to-face services such as dining-out and travel. Sales in the food services industry had increased gradually since May, but only about half of the decline had been offset. As for travel, domestic travel had picked up gradually, albeit at a low level, owing to relaxation of self-restraint from traveling across prefectures and the "Go To Travel" campaign; on the other hand, there had been almost no overseas travel as travel restrictions remained in place. Regarding the outlook, consumption of services, such as eating and drinking as well as accommodations, was likely to remain at a relatively low level. However, as the impact of COVID-19 waned on the whole, the pick-up in private consumption was expected to become evident, supported by various income support measures and demand stimulus measures.

Corporate profits and business sentiment had deteriorated due to the impact of COVID-19. Looking at the *Financial Statements Statistics of Corporations by Industry, Quarterly*, while the ratio of current profits to sales had been on a downtrend from the second half of last year, the statistics for the April-June quarter showed that the ratio had declined further recently due to the impact of COVID-19. Business sentiment, mainly of small and medium-sized firms, had been in a state of significant deterioration, although some indicators had headed toward a pick-up. Business fixed investment had been on a declining trend. According to the second preliminary estimates of GDP for the April-June quarter, the growth rate of real business fixed investment had registered minus 4.7 percent on a quarter-on-quarter basis. The aggregate supply of capital goods -- a coincident indicator of machinery investment -- had decreased clearly due to deterioration in corporate profits and increasing uncertainties over the future. Private construction completed (nonresidential) -- a coincident indicator of construction investment -- had been on a moderate downtrend, partly because Olympic Games-related large-scale construction almost had been completed. Regarding the outlook, business fixed investment was expected to continue on a declining trend against the background of deterioration in corporate profits and high uncertainties over future developments regarding COVID-19.

With the continuing impact of COVID-19, the employment and income situation had been weak. According to the *Labour Force Survey*, the year-on-year rate of change in the number of employed persons for July had registered minus 1.1 percent, with the rate of decline being almost the same as that for the April-June quarter. Meanwhile, the number of employed persons not at work, which had surged following the declaration of the state of emergency in April, had shown a clear decline since the May-June period, with the figure for July generally returning to the level seen in March. The year-on-year rate of change in nominal wages for July had been in the range of minus 2 to minus 3 percent, due mainly to declines in non-scheduled cash earnings and summer bonuses. Employee income was projected to continue on a declining trend for the time being, affected by the depressed economic activity and a deterioration in corporate profits, both reflecting the impact of COVID-19.

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

2. Financial environment

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

Inflation expectations had weakened somewhat.

Firms' demand for funds had increased, mainly against the background of a decline in sales and an increase in precautionary demand, both of which were due to the impact of COVID-19. Their financial positions had been weak, mainly reflecting a decline in sales due to the impact of COVID-19. The DI for financial positions of small enterprises had improved moderately but had not recovered to the level reached before the outbreak of COVID-19. However, the environment for external funding remained accommodative owing to the Bank's and the government's measures, as well as efforts made by financial institutions. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuing conditions for CP and corporate bonds had been favorable on the whole. Firms' funding costs had been hovering at low levels. In this situation, the year-on-year rate of increase in the amount outstanding of bank lending had been in the range of 6.5-7.0 percent, and that in the amount outstanding of CP and corporate bonds had been at a relatively high level that exceeded 10 percent.

The year-on-year rate of increase in the monetary base had been at around 11.5 percent, and that in the money stock had been at around 8.5 percent.

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

A. Economic Developments

Members agreed that the tension in global financial markets had eased, mainly due to heightened expectations for recovery in business performance, particularly in the United States. However, they shared the view that, amid a situation of high uncertainty regarding domestic and overseas economies, the markets continued to be nervous, as evidenced, for example, by volatility in the stock market remaining at a relatively higher level than that seen before the outbreak of COVID-19. One of these members noted that financial markets had recently been stable due to the fact that each country and region had been conducting fiscal and monetary policies in the same direction, in response to the globally common shock. However, the member continued that the volatility could increase again depending on future developments, and therefore this warranted attention. In addition, a different member pointed out that, with regard to indicators that capture the skew of market participants' recognition of risks, the Cboe SKEW index remained at a high level, suggesting that the markets were focusing on the downside tail risk of a significant plunge in stock prices, and the risk reversal of the U.S. dollar/yen indicated growing concern over an appreciation of the yen.

Members concurred that overseas economies had started to pick up from a state of significant depression. However, many members expressed the recognition that, while the impact of COVID-19 remained worldwide, the level of economic activity was still low and the pace of the pick-up had been slow, particularly in services consumption. In addition, one member noted that a clear V-shaped recovery had been seen in some sectors, whereas a recovery in demand was still not in sight in other sectors. The member continued that this contrast between sectors had started to become gradually more evident than that observed at the time of the Global Financial Crisis. With regard to the outlook, members shared the recognition that, as the impact of COVID-19 waned gradually, overseas economies were likely to pick up, partly supported by aggressive macroeconomic policies in each country and region, but the pace was expected to be only moderate. In addition, some members pointed out that risks to future developments included the consequences of COVID-19, an intensifying tension between the United States and China, trade negotiations between the United Kingdom and the EU, as well as the U.S. presidential election, and that they entailed high uncertainties.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had started to pick up from a state of significant depression. A few members noted that the effects of monetary easing brought about by a decline in real interest rates had emerged in, for example, housing investment and selling of automobiles. In addition, one member expressed the recognition that the U.S. economy had started to pick up, mainly for goods consumption. The member continued that it was likely to continue picking up since a decline in growth expectations held by the young and middle-aged generations had not been observed. One member said that it was of concern that the recovery momentum of employment had slowed compared with the pace of economic recovery.

Members shared the view that the European economy had started to pick up from a state of significant depression. A few members said that, although it had done so after lockdowns had been lifted, it was of concern that, according to high-frequency data, the pace of economic recovery had slowed since August, with the number of confirmed COVID-19 cases returning to an increasing trend through summer. In addition, one member commented that, although the economy had started to pick up, mainly for exports, production, and goods consumption, the effects of the recent appreciation of the euro were of concern in forecasting developments in exports.

Members concurred that the Chinese economy had recovered due to the emergence of the effects of aggressive macroeconomic policies and the materialization of pent-up demand. A few members noted that, relatively speaking, China was successful in containing COVID-19. However, some members expressed the recognition that, with the slow pace of recovery in the global economy, the Chinese economy was unlikely to see a recovery led by external demand for the time being, mainly affected by, for example, the intensifying tension between the United States and China. In addition, one member expressed the view that macroeconomic policies in China had emphasized well-balanced growth and aggregate demand had lacked momentum. This member continued that, therefore, the Chinese economy's momentum had not been strong enough to lead the global economy.

Members shared the recognition that emerging economies remained significantly depressed, although a pick-up had been seen in part. One member commented that, if the impact of COVID-19 was prolonged, economies, which had substantial external debt and ran short of sufficient fiscal space, could face difficulties in making policy responses.

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

With regard to economic activity, members concurred that the economy had started to pick up with economic activity resuming gradually, although it remained in a severe situation due to the impact of COVID-19 at home and abroad. Some of these members pointed out that the economy seemed to have bottomed out in the April-June quarter. Meanwhile, one member pointed out that the pace of improvement in Japan's economic developments seemed to be somewhat slower than that observed at the time of the previous meeting. Members agreed that exports and production had turned to a pick-up. A few of these members noted that, with economic activity resuming at home and abroad, exports and production of automobile-related goods in particular had evidently gained recovery momentum. However, a few different members pointed out that inbound tourism demand -- that is, exports of services -- remained significantly depressed. With regard to private consumption, members shared the view that it had picked up gradually on the whole, mainly for goods consumption, although services consumption remained at a low level. One member expressed the view that private consumption had bottomed out, partly supported by the provision of special cash payments. Nevertheless, some members expressed the recognition that the pace of the pick-up, particularly in services consumption, had been slow while the impact of COVID-19 remained. One of these members said that, this summer, the pick-up in face-to-face services such as dining-out and accommodations had paused due to the resurgence of COVID-19. Members shared the recognition that business fixed investment had been on a declining trend. One member expressed the view that, according to the *Financial Statements Statistics of Corporations by Industry, Quarterly* for the April-June quarter, firms had been cautious about their investment amid a situation of high uncertainty regarding their profits. One member expressed the view that the decline in business fixed investment on a GDP basis for the April-June quarter was broadly in line with the projection. Members concurred that the employment and income situation had been weak. On this basis, a few members expressed the view that the decline in employment had been constrained compared with deterioration in the state of the economy, partly owing to the effects of the policy measures implemented by the government and the Bank.

As for <u>the outlook for economic activity</u>, members concurred that Japan's economy, with economic activity resuming, was likely to follow an improving trend through the materialization of pent-up demand and supported by accommodative financial conditions and the government's economic measures, but the pace of improvement was expected to be only moderate while the impact of COVID-19 remained worldwide. In addition, they shared the view that, thereafter, as the impact subsided, the economy was projected to keep improving further with overseas economies returning to a steady growth path. One member expressed the recognition that no significant change needed to be made to the baseline scenario presented in the July 2020 *Outlook for Economic Activity and Prices*. To support this view, the member added that Japan had been entering a phase in which, given the experiences thus far and from an overall socio-economic perspective, it could prevent the spread of COVID-19 and improve economic activity simultaneously while striking a balance between the two.

One member expressed the recognition that, for the time being, it was essential to carefully monitor the pace of economic recovery while aiming to achieve both containment of the spread and expansion of economic activity. One member said that, while a relatively marked recovery supported by exports and production was projected in the short run, it was unlikely that Japan's economy would rebound significantly because domestic demand, mainly in services consumption, would likely remain at a low level due to the impact of COVID-19. One member noted that the pace of economic recovery was likely to be only moderate, as business fixed investment plans, including those in the June 2020 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), had been formulated more conservatively than usual and as private consumption was likely to weigh on the overall economic recovery with the deterioration in the employment situation. On this basis, many members expressed the recognition that growth expectations had not declined substantially to this point, with a substantial increase in bankruptcy and unemployment being avoided owing to the effects of policy responses. They continued that, however, it was necessary to thoroughly examine whether firms' and households' spending behavior would become more cautious than expected given that corporate profits and employee income were likely to remain weak for some time. One of these members said that, due to COVID-19, the risk of an unexpected future decline in income had been recognized in a situation where concern over public pension funds and longevity risk had been weighing on consumption. The member continued that there was concern that this might further raise households' propensity to save and that downward pressure on consumption might be exerted accordingly.

As for prices, members shared the recognition that the year-on-year rate of change in the CPI (all items less fresh food) was at around 0 percent, mainly affected by the past decline in crude oil prices, and that in the CPI (all items less fresh food and energy) was at around 0.5 percent, while inflation expectations had weakened somewhat. Some members expressed the view that the price change distribution for each item in the CPI had not been negatively skewed, and that price-setting behavior by firms that aimed at stimulating demand through price cuts -- as seen in the deflation period -- had not been observed widely to this point. One of these members noted that firms likely considered that price cuts could not stimulate demand given that a decrease in demand had been brought about by constraining economic activity to prevent the spread of COVID-19.

With regard to the outlook, members shared the view that the year-on-year rate of change in the CPI (all items less fresh food) was likely to be negative for the time being, mainly affected by COVID-19 and the past decline in crude oil prices, but thereafter was expected to turn positive and then increase gradually with the economy improving. One member expressed the view that, if firms continued to retain excess workers, wage increases could be constrained and services prices might not rise easily, even after COVID-19 subsided. The member continued that, however, in the course of continuing with necessary policy responses and the output gap turning positive, it was possible to regain the inflation momentum. A different member said that there was growing momentum toward structural and regulatory reforms, and if such reforms successfully brought about a rise in growth expectations, the inflation rate -- from a somewhat long-term perspective -- would likely increase through the revision of employment practices and positive changes in consumption and investment activities. On the other hand, one member pointed out that, as the year-on-year rate of change in the CPI was likely to be clearly negative for the time being, if adverse conditions arose additionally, households' and firms' sentiment could be impaired further and the timing of regaining inflation momentum could be affected accordingly. One member stated that it remained unlikely that the year-on-year rate of change in the CPI would approach 2 percent with momentum in the foreseeable future with the output gap and inflation expectations exerting downward pressure.

As for risks to economic activity and prices, members agreed that there remained extremely high uncertainties over the consequences of COVID-19 and the magnitude of their impact on domestic and overseas economies. In addition, they shared the recognition that it was necessary to pay close attention to whether, while the impact of COVID-19 remained, firms' and households' medium- to long-term growth expectations would not decline substantially and the smooth functioning of financial intermediation would be ensured with financial system stability being maintained. Some members expressed the view that careful monitoring was required of downside risks, particularly the impact of COVID-19. One of these members said that it was necessary to carefully examine the second-round effects -- such as how households' and firms' mindset and behavior, firms' price-setting behavior, or the formation of inflation expectations would change due to the impact of COVID-19.

B. Financial Developments

Members concurred that financial conditions in Japan had been accommodative on the whole but those for corporate financing remained less so, as seen in weakness in firms' financial positions, mainly reflecting a decline in sales. However, they shared the view that the environment for external funding -- including the availability of bank loans and issuing conditions for CP and corporate bonds -- remained accommodative owing to the Bank's and the government's measures, as well as active efforts made by private financial institutions. One member expressed the recognition that, in this situation, the increase in the number of bankruptcies of firms and discontinuation of businesses had been contained thus far, and financial system stability continued to be maintained on the whole. On this basis, the member said that attention should be paid to the possibility that, if the impact of COVID-19 persisted, the challenge would shift from a liquidity problem to a solvency one through the calendar and fiscal year-ends and that, under such circumstances, this would put downward pressure on economic activity and prices. Meanwhile, a different member pointed out that, although the functioning of financial intermediation had been fulfilled appropriately and bank lending continued to increase on an unprecedented scale, market participants' assessments of financial institutions, as seen in the price-to-book ratios of banks remaining low, might reflect concern over financial system stability.

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 for the time being, most members shared the recognition that the three monetary easing measures -- namely, (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits, and (3) active purchases of assets such as ETFs -- had been exerting their intended effects. These members then noted that it was appropriate for the Bank to continue to support financing, mainly of firms, and maintain stability in financial markets through the three monetary easing measures. One member emphasized that this was mainly because corporate financing was likely to remain under stress, and financial markets could become significantly unstable again depending on the consequences of COVID-19. One member said that the priority for monetary policy for the time being was to endeavor to support corporate financing and sustain employment. One member pointed out that a rapid increase in unemployment and bankruptcy had been avoided and corporate financing seemed to have progressed; thus, it was appropriate to examine the policy effects for the time being. One member expressed the recognition that, for the time being, the Bank should maintain the current stance of monetary policy and carefully examine the positive effects and side effects. One member said that continuing with monetary easing by conducting the three measures would support the economy, and thereby lead to achievement of the price stability target. Meanwhile, a different member noted that the Bank's responses through the three monetary easing measures had been exerting positive effects, and that it was important to continuously encourage firms to undertake forward-looking activities, including investment for growth areas. This member continued, however, that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, in response to a possible increase in downward pressure on prices and with the aim of alleviating firms' and households' interest burden.

On this basis, members concurred that, for the time being, the Bank would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary. One member noted that, if the economic recovery was delayed, this could cause an increase in firms' credit costs and a deterioration in the functioning of financial intermediation, which in turn might bring about a rise in bankruptcies of firms and a deterioration in the employment situation. The member then emphasized the view that it was therefore important to make policy responses without hesitation when judged necessary.

Members deliberated over <u>various points to take into account in relation to the conduct of monetary policy</u>. Some members expressed the recognition that it was necessary for the Bank to continue to closely cooperate with the government based on their respective roles. One of these members expressed the view that, in making policy responses swiftly, it was important to firmly maintain cooperation by, for example, closely exchanging information between the government and the central bank, as well as among major central banks. A different member noted that, in particular, the Bank's cooperation with the government at the time of an economic crisis was effective. The member then said that the Bank should further examine appropriate monetary policy conduct during the COVID-19 era, taking into account the achievements and lessons learned thus far; that is, (1) the Bank's large-scale monetary easing had exerted positive effects on the employment and income situation, in that it had increased the number of employees and income, even amid a decrease in the working-age population, had not created difficulty for new graduates to find jobs, and had reduced the number of the poor, and (2) it had taken the same policy stance as other major central banks in terms of aiming at the 2 percent inflation target, which was a global standard.

Members also discussed the importance of growth strategies and structural reforms. One member pointed out that, from a medium- to long-term perspective, while the government and firms made efforts to push forward with structural reforms and growth strategies, it was important to encourage firms' growth, mainly through financial institutions' expertise in examining the creditworthiness of firms and through the market mechanism, so that the potential growth rate would rise accordingly. In addition, a different member expressed the opinion that, in order to achieve the price stability target, it was essential, mainly for small and medium-sized firms, to implement reforms to raise productivity beyond cutting their costs. This member continued that the Bank should support reforms in the private sector while thoroughly analyzing and assessing the efforts by the government and the private sector, as well as taking account of consequent insights in conducting monetary policy as necessary. Another member said that the Bank would need to discuss how monetary policy could contribute to addressing structural problems such as digitalization and improvement in the vulnerable position of non-regular employees from the viewpoint of achieving both containment of the spread of COVID-19 and improvement in economic activity during the COVID-19 era.

As for other points to take into account, one member expressed the recognition that, although the Bank should firmly maintain the price stability target of 2 percent, it was important to ensure the sustainability of the policy, including addressing its side effects, given that monetary easing was expected to become prolonged. Meanwhile, one member said that it would be necessary to reconsider the strategy toward achieving the price stability target comprehensively, given that the path toward achieving the target was not in sight amid the situation of significant changes in economic developments.

Members also commented on the relationship between the Bank's policy and such factors as the Federal Reserve's revised monetary policy strategy. A few members noted that the Bank had adopted the inflation-overshooting commitment and thereby had been aiming to attain a situation where the inflation rate was 2 percent on average over the business cycle. These members then expressed the recognition that the Federal Reserve's recent announcement that it would seek to achieve inflation that averaged 2 percent over time was consistent with the Bank's thinking on the monetary policy conduct to date. In addition, some members emphasized that the Bank, with regard to the forward guidance for the policy rates, had made clear its policy stance of being tilted toward monetary accommodation while continuing with monetary easing. Members shared the view that the Bank should clearly explain these points to the public.

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

Based on the above discussions, regarding the guideline for market operations for the intermeeting period, most members expressed the view that it was appropriate for the Bank to maintain the following guideline. First, as for the short-term policy interest rate, it would apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. Second, as for the long-term interest rate, the Bank would purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields would remain at around 0 percent. While doing so, the yields might move upward and downward to some extent mainly depending on developments in economic activity and prices.

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

With regard to asset purchases other than JGB purchases, members shared the recognition that it was appropriate for the Bank to implement the following guideline. First, it would purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank might increase or decrease the amount of purchases, depending on market conditions. For the time being, it would actively purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively. Second, as for CP and corporate bonds, the Bank would maintain their amounts outstanding at about 2 trillion yen and about 3 trillion yen, respectively. In addition, until the end of March 2021, it would conduct additional purchases with the upper limit of the amounts outstanding of 7.5 trillion yen for each asset.

With respect to the Bank's thinking behind its future conduct of monetary policy, members shared the view that it would (1) continue with Quantitative and Qualitative Monetary Easing with Yield Curve Control, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining that target in a stable manner, and (2) continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeded 2 percent and stayed above the target in a stable manner.

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

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

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

IV. Remarks by Government Representatives

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

(1) In response to COVID-19, the government had worked toward achieving both prevention of the spread of COVID-19 and improvement in socio-economic activities, mainly through formulating two supplementary budgets, implementing measures amounting to a record-high scale of over 230 trillion yen, and approving the use of emergency funds in

order to, for example, secure medical provision systems. While continuing to make efforts to prevent the spread of COVID-19, the government would do its utmost to retain employees, sustain businesses, and support people's daily lives.

(2) Looking ahead to the post-COVID-19 era, the government would aim at realizing a high-quality economy and society through building a new normal for everyday life, mainly in line with the Basic Policy on Economic and Fiscal Management and Reform 2020 (hereafter the Basic Policy), which was decided by the Cabinet in July.

(3) Upon the formation of the new Cabinet, Prime Minister Suga had instructed Finance Minister Aso, with regard to the impact of COVID-19 on the economy and capital markets, to ensure that the government (1) cooperate closely with the Bank and make every effort to facilitate corporate financing and maintain stability in financial markets and do whatever it takes to settle the situation, and (2) work together to bring the Japanese economy back again on a solid growth track after the pandemic subsided. The government expected the Bank to continue to conduct necessary measures appropriately, including responses to COVID-19.

The representative from the Cabinet Office made the following remarks.

(1) The second preliminary estimate of the real GDP growth rate for the April-June quarter of 2020 was minus 28.1 percent on an annualized quarter-on-quarter basis, registering the largest-ever decline since 1980, from when comparable data were available. Japan's economy had been in an extremely severe situation, as seen in, for example, domestic demand, particularly private consumption, having been greatly pushed down since the economy had been artificially suppressed under the state of emergency in the April-May period. On the other hand, the monthly data showed that the economy had been picking up since June, although signs of a pause in private consumption had been observed in part, reflecting such factors as the increase in the number of confirmed COVID-19 cases and the damage caused by the heavy rain.

(2) The new Cabinet, led by Prime Minister Suga, was officially inaugurated yesterday. With a view to bringing the economy back onto a growth path, mainly driven by domestic demand, the government would continue to (1) fully protect businesses, employment, and livelihoods, and (2) firmly work toward achieving both prevention of the spread of COVID-19 and improvement in socio-economic activities, through conducting the

emergency economic measures and the supplementary budgets as soon as possible. In addition, based on the Basic Policy, with the aim of realizing a high-quality economy and society at the earliest possible time through building a new normal for everyday life in which everyone could have a sense of growth, the government would develop, by the end of the year, an action plan that would clarify, for example, the policy objectives and the schedule for the necessary policies, such as the Digital New Deal. The government would work on these policies as well as the budget for the next fiscal year and institutional reforms, such as tax and regulatory reforms, in a vigorous and comprehensive manner. It would carefully examine the evolving situation regarding COVID-19 and the economic trends in Japan and overseas, and respond flexibly as needed without delay.

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

V. Votes

A. Vote on the Guideline for Market Operations

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

The Policy Board decided the proposal by a majority vote.

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

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

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

2. The Bank will purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent. While doing

so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.

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

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

B. Vote on the Guideline for Asset Purchases

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

The Policy Board decided the proposal by a unanimous vote.

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

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

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

2. As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2 trillion yen and about 3 trillion yen, respectively. In

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

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SAKURAI Makoto, Ms. MASAI Takako, Mr. SUZUKI Hitoshi, Mr. KATAOKA Goushi, Mr. ADACHI Seiji, and Mr. NAKAMURA Toyoaki.
Votes against the proposal: None.

C. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. Mr. Kataoka expressed the opinion that, given the severe impact of COVID-19, further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

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

VI. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of July 14 and 15, 2020, for release on September 24.

Attachment
September 17, 2020
Bank of Japan

Statement on Monetary Policy

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

   (1) Yield curve control

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

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

   The long-term interest rate:
   The Bank will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.[6]

   (2) Guidelines for asset purchases

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

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

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

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

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

2. Japan's economy has started to pick up with economic activity resuming gradually, although it has remained in a severe situation due to the impact of the novel coronavirus (COVID-19) at home and abroad. Overseas economies also have started to pick up from a state of significant depression. In this situation, exports and industrial production have turned to a pick-up. On the other hand, corporate profits and business sentiment have deteriorated, and business fixed investment has been on a declining trend. With the continuing impact of COVID-19, the employment and income situation has been weak. Private consumption has picked up gradually on the whole, although consumption of services, such as eating and drinking as well as accommodations, has remained at a low level. Housing investment has declined moderately. Meanwhile, public investment has continued to increase moderately. Financial conditions have been accommodative on the whole but those for corporate financing have remained less so, as seen in weakness in firms' financial positions. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) is at around 0 percent, mainly affected by the past decline in crude oil prices. Inflation expectations have weakened somewhat.

3. With regard to the outlook, Japan's economy, with economic activity resuming, is likely to follow an improving trend through the materialization of pent-up demand and supported by accommodative financial conditions and the government's economic measures. However, the pace of improvement is expected to be only moderate while the impact of COVID-19 remains worldwide. Thereafter, as the impact subsides globally, the economy is projected to keep improving further with overseas economies returning to a steady growth path. The year-on-year rate of change in the CPI (all items less fresh food) is likely to be negative for the time being, mainly affected by COVID-19 and the past decline in crude oil prices. Thereafter, it is expected to turn positive and then increase gradually, as downward pressure on prices is projected to wane gradually along with economic improvement and the effects of the decline in crude oil prices are likely to dissipate.

4. With regard to risks to the outlook, there have been extremely high uncertainties over the consequences of COVID-19 and the magnitude of their impact on domestic and overseas economies. In addition, it is necessary to pay close attention to whether, while the impact of

COVID-19 remains, firms' and households' medium- to long-term growth expectations will not decline substantially and the smooth functioning of financial intermediation will be ensured with financial system stability being maintained.

5. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner.

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

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

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

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