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December 23, 2020

Bank of Japan

Minutes of the Monetary Policy Meeting

on October 28 and 29, 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, October 28, 2020, from 2:00 p.m. to 3:59 p.m., and on Thursday, October 29, from 9:00 a.m. to 12:05 p.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. NAKANISHI Kenji, State Minister of Finance, Ministry of Finance[2]

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

Mr. AKAZAWA Ryosei, State Minister of Cabinet Office, Cabinet Office[2]

Mr. TAWA Hiroshi, Vice-Minister for Policy Coordination, 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 December 17 and 18, 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. Nakanishi and Akazawa were present on October 29.

[3] Messrs. Sakata and Tawa were present on October 28.

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. ICHISE Yoshitaka, Senior Economist, Monetary Affairs Department

Mr. TSUCHIKAWA Akira, Senior Economist, Monetary Affairs Department

Mr. NAGAE Shinichiro, 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 September 16 and 17, 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, with a view to maintaining stability in financial markets, the Bank had provided ample funds flexibly, 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 0.06 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had risen somewhat.

The Nikkei 225 Stock Average had been generally unchanged, while U.S. stock prices, after having risen mainly as a reflection of expectations for recovery in business performance, had declined due to the spread of COVID-19. Long-term interest rates had been at around 0 percent under yield curve control. As for liquidity in the JGB market, with interest rates being stable, indicators such as those of market depth for JGB futures had followed an improving trend although trading volume for JGBs had been at a relatively low level. In 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.

foreign exchange market, the yen had been more or less flat against both the U.S. dollar and the euro.

C. Overseas Economic and Financial Developments

Overseas economies had picked up from a state of significant depression. Since the previous meeting, the number of confirmed new cases of COVID-19 had increased further on a global basis, and it had recently been close to or above the past peak, particularly in many European economies and the United States. However, with the aim of taking preventive measures against COVID-19 and improving economic activities simultaneously, most of these economies had so far avoided such measures as the strict and wide-ranging lockdowns of cities imposed in early spring by, for example, narrowing down the target of public health measures. Under these circumstances, the decline in mobility had also been only small compared with that in early spring, and an improving trend in the services sector (i.e., nonmanufacturing) seemed to be maintained. With regard to the goods sector (i.e., manufacturing), business sentiment continued to improve partly reflecting the materialization of pent-up demand and a recovery in production from the decline brought about by COVID-19, and a pick-up in global production and the world trade volume had also become evident. As for the outlook, with the impact of COVID-19 waning gradually, the global economy was likely to improve, partly supported by aggressive macroeconomic policies taken by each country and region. That said, it was highly likely that the pace of improvement would be only moderate for the time being since people would remain cautious in their spending activities due to vigilance against COVID-19. In addition, extremely high uncertainties remained, mainly regarding the consequences of COVID-19 and their impact on the global economy.

With regard to developments in overseas economies by region, the U.S. economy had picked up from a state of significant depression. Private consumption also had picked up, mainly for goods consumption, reflecting in particular the government's measures to compensate for the decline in household income and the materialization of pent-up demand, although services consumption remained at a low level, with the number of confirmed new cases of COVID-19 increasing again. Housing investment had increased, with mortgage rates staying at record low levels. As for the corporate sector, business sentiment continued to improve and production had picked up. Under these circumstances, business fixed investment had been depressed on the whole, mainly reflecting a decline in corporate profits, but a pick-up had been seen primarily in machinery investment.

The European economy had picked up from a state of significant depression. In the euro area, private consumption had picked up moderately on the whole, mainly for goods consumption, reflecting in particular the materialization of pent-up demand, although services consumption remained at a low level, partly due to a tightening of public health measures in response to a resurgence of COVID-19. With regard to the corporate sector, although business sentiment in the services industry had deteriorated somewhat due to a resurgence of COVID-19, that in the manufacturing industry continued to improve, and exports and production had also picked up. Under these circumstances, business fixed investment had been depressed on the whole, mainly reflecting a decline in corporate profits, but it had picked up in part.

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 increased mainly owing to an improvement in the employment and income situation and the materialization of pent-up demand, although the impact of COVID-19 remained in part. Fixed asset investment continued to increase, given, for example, that investment such as that related to public works had increased reflecting the emergence of the effects of aggressive macroeconomic policies, and that such policy effects had also spread to the manufacturing industry. Under these circumstances, production had increased.

Emerging economies other than China remained depressed, but a pick-up had been seen in part. As for the NIEs and the ASEAN countries, a pick-up had been widely observed on the whole, mainly in exports and production, although domestic demand remained depressed in some economies due to the impact of COVID-19. The economies of India, Brazil, and Russia continued to be depressed as the number of confirmed new cases of COVID-19 had still been at a high level, but a pick-up had also been seen.

With respect to overseas financial markets, U.S. stock prices and long-term interest rates had risen, mainly reflecting favorable economic indicators. On the other hand, European stock prices and long-term interest rates had declined against the background of an increase in the number of confirmed new cases of COVID-19 and the subsequent tightening of public health measures. In the foreign exchange market, while the depreciation trend of the U.S.

dollar had paused, currencies in emerging economies had, on the whole, depreciated somewhat. Crude oil prices had been more or less unchanged.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had picked up with economic activity resuming, although it remained in a severe situation due to the impact of COVID-19 at home and abroad. Regarding the outlook, with economic activity resuming and the impact of COVID-19 waning gradually, the economy was likely to continue picking up for the time being, partly supported by accommodative financial conditions and the government's economic measures.

Exports and industrial production had increased, reflecting developments in overseas economies. Looking at real exports by goods, exports of automobile-related goods had increased clearly, reflecting a recovery in automobile sales in the United States, Europe, and China. IT-related exports had turned to an increase on the back of firm developments in parts for data centers and in those related to personal computers, as well as of a pick-up in parts for on-board equipment for motor vehicles. Exports of capital goods had bottomed out due to a global recovery in production activity. As for the outlook, with the impact of COVID-19 waning globally, exports and production were likely to continue increasing firmly for the time being, partly supported by the materialization of pent-up demand.

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, automobile sales had recovered to the pre-pandemic levels. Sales of household electrical appliances remained firm, partly reflecting people spending more time at home and the effects of the provision of special cash payments, but the rate of increase had been decelerating recently. In addition, food and daily necessities, for example, remained firm on the back of the expansion in stay-at-home consumption. 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, as seen, for example, in a pause in the pick-up due in part to a resurgence 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. Dining-out had increased gradually since May, but only about half of the decline brought about by COVID-19 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 effects of the "Go To Travel" campaign; on the other hand, there had been almost no overseas travel as travel restrictions remained in place. In the outlook, private consumption was likely to continue picking up, partly supported by demand stimulus measures such as the "Go To" campaign. That said, while the impact of COVID-19 remained, the pace of increase in private consumption was highly likely to be quite moderate because (1) a decline in the operation rates, mainly for dining-out and services for individuals, was inevitable, and (2) there was strong vigilance against COVID-19, mainly by seniors.

With the continuing impact of COVID-19, the employment and income situation had been weak. As for the employment situation, according to the *Labour Force Survey*, the year-on-year rate of decline in the number of employed persons for the July-August period was almost the same as that for the April-June quarter, mainly due to a decrease in non-regular employees in the face-to-face services industry. The number of employed persons whose working hours were zero in the last week of each month spiked in April, but thereafter followed a declining trend, and the figure for August had generally returned to the level seen in March. However, the year-on-year rate of change in the number of hours worked per employee continued to register relatively large negative growth. With regard to labor market conditions, the deterioration in the diffusion index (DI) for employment conditions in the September 2020 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) had come to a halt. However, in the accommodations as well as eating and drinking services industry, where a decline in demand had been evident, firms' perception of excess employment remained strong. Total cash earnings had declined, mainly due to decreases in non-scheduled cash earnings and summer bonuses. Employee income was projected to continue declining clearly for the time being, while lagging somewhat behind a deterioration in corporate profits.

Corporate profits had deteriorated substantially, reflecting a rapid drop in domestic and overseas demand. Business sentiment had deteriorated significantly but subsequently had improved somewhat. With regard to the business conditions DI for all industries and enterprises in the *Tankan*, the net "unfavorable" in the June survey had hit a low level not seen since December 2009, but it had improved marginally in the September survey. Business fixed investment had been on a declining trend against the background of deterioration in corporate profits and increasing uncertainties over the future. The aggregate supply of capital goods -- a coincident indicator of machinery investment -- continued to decline clearly.

Private construction completed (nonresidential) -- a coincident indicator of construction investment -- also continued to be on a moderate declining trend, partly due to large-scale Olympic Games-related construction having almost completed. Machinery orders -- a leading indicator of machinery investment -- had shown signs of bottoming out, mainly for manufacturing, reflecting increases in exports and production. On the other hand, a declining trend in construction starts -- a leading indicator of construction investment -- had become evident recently. This was largely attributable to a decrease in construction of stores and accommodation facilities that had been seen mainly in the eating and drinking as well as accommodation industries. Regarding figures for the September *Tankan* surveys, the business fixed investment plan for fiscal 2020 showed negative growth on a year-on-year basis, albeit marginally, for the first time since fiscal 2009. Meanwhile, software investment was expected to continue increasing steadily, reflecting firms' active stance toward digital-related investment. As for the outlook, business fixed investment was expected to continue its downtrend for the time being, mainly for construction investment by the face-to-face services industry, against the background of deterioration in corporate profits and high uncertainties over future developments related to COVID-19. That said, it was likely that the capital stock adjustment would not be significant, and with the impact of COVID-19 waning, business fixed investment was projected to return to a moderate uptrend along with improvement in corporate profits.

As for prices, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) had been slightly negative, mainly affected by COVID-19, the past decline in crude oil prices, and the "Go To Travel" campaign. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was also likely to be negative for the time being.

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 remained at a high level, mainly reflecting a decline in sales and a rise in precautionary demand, both of which were due to the impact of COVID-19, but an increase in demand by large firms in particular had paused recently. Although firms' financial positions had stopped deteriorating, they had been weak, mainly reflecting a decline in sales due to the impact 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 6.0-6.5 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 in the range of 14.0-14.5 percent, and that in the money stock had been at around 9 percent.

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

A. Economic Developments

Members agreed that the tension in global financial markets had eased, mainly because expectations for recovery in business performance, particularly in the United States, had strengthened, reflecting resumption of economic activities. However, they shared the view that, amid a situation of highly unclear developments in domestic and overseas economies, the markets remained nervous as COVID-19 continued to spread globally. Some of these members expressed the recognition that, besides the impact of COVID-19, there were various uncertainties that could affect the global financial markets, such as the U.S. presidential election and trade negotiations between the United Kingdom and the European Union (EU). One member said that developments in U.S. financial markets, for example, in low-rated corporate bonds, warranted attention. A different member pointed out that, with regard to indicators that capture the skew of market participants' recognition of risks, the risk reversal of the U.S. dollar/yen indicated growing concern over an appreciation of the yen.

Members concurred that overseas economies had picked up from a state of significant depression. However, some members noted that the pick-up in overseas economies had been only moderate and uneven. One of these members pointed out that there had been variations in the pace of recovery across countries depending on developments in COVID-19, and that by industry, the pace of the pick-up in nonmanufacturing had been slow, particularly in the face-to-face services industry, compared with the pace of the pick-up in manufacturing.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had picked up from a state of significant depression. One member expressed the view that the U.S. economy had started to pick up mainly in 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. However, one member said that employment had recovered only halfway and that the pace of growth in business fixed investment was also slow, reflecting a decline in corporate profits.

Members shared the view that the European economy had picked up from a state of significant depression. However, some members noted that major economies had recently been tightening their public health measures while the number of confirmed COVID-19 cases had surged, and therefore attention should be paid to the risk of economies becoming stagnant again. In addition, one of these members drew attention to the issue of whether necessary support through fiscal responses would continue to be provided so as to avoid the "fiscal cliff" with the impact of COVID-19 being prolonged.

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. One member expressed the recognition that, with the slow pace of global economic recovery, the Chinese economy was expected to continue recovering mainly led by domestic demand, since economic recovery led by external demand was unlikely for the time being, due mainly to the intensified tension between the United States and China.

Members shared the recognition that emerging economies remained depressed, but a pick-up had been seen in part. One member commented that, given the risk that economies that ran short of sufficient fiscal space would face difficulties in making policy responses if the impact of COVID-19 was prolonged, it was important to implement measures to mitigate such risk, including the Debt Service Suspension Initiative.

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. One member noted that the DI for firms' financial positions in the September *Tankan* remained low, particularly for small enterprises, and firms' demand for funds remained at a high level, mainly reflecting a decline in sales and a rise in precautionary demand.

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 concurred that the economy had picked 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 members expressed the view that, while developments in COVID-19 continued to warrant attention, Japan had been entering a phase in which it could take preventive measures against COVID-19 and improve economic activities simultaneously. Members agreed that exports and production had increased, reflecting developments in overseas economies. Some 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. With regard to private consumption, members shared the view that it 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. A few members expressed the view that demand for services consumption had also been increasing recently, owing to the effects of the government's demand stimulus measures such as the "Go To" campaign. However, one member expressed concern that the positive effects of the provision of special cash payments on disposable income had gradually been dissipating. Members shared the recognition that business fixed investment had been on a declining trend against the background of deterioration in corporate profits and increasing uncertainties over the future. One member pointed to the downward revision to the business fixed investment plan seen in the September *Tankan* and the increasing number of business fixed investment projects being postponed. On the other hand, a different member noted that, looking at the revision to the business fixed investment plan in the September *Tankan* and at developments in machinery orders, the degree of decline remained small compared with the time of the Global Financial Crisis (GFC). Members concurred that, with the continuing impact of COVID-19, 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 prices, members shared the recognition that the year-on-year rate of change in the CPI had been slightly negative, mainly affected by COVID-19, the past decline in crude oil prices, and the "Go To Travel" campaign, and that inflation expectations had weakened somewhat. On this basis, some members said that prices were likely to remain relatively weak for the time being due to temporary factors, but price-setting behavior by firms that aimed at stimulating demand through price cuts -- as seen in the deflation period -- had not been observed widely. One of these members expressed the view 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. This member added that the government's large-scale income support measures implemented during this time had supported spending and prices.

B. Outlook for Economic Activity and Prices

In formulating the October 2020 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), members shared the recognition that -- regarding the baseline scenario of the outlook for Japan's economic activity -- with economic activity resuming and the impact of COVID-19 waning gradually, the economy was likely to follow an improving trend, supported by accommodative financial conditions and the government's economic measures; however, the pace of improvement was expected to be only moderate while vigilance against COVID-19 continued. They concurred that thereafter, as the impact subsided globally, the economy was projected to keep improving further with overseas economies returning to a steady growth path. Members shared the recognition that, while there were extremely high uncertainties over the outlook for economic activity, it was appropriate in the October Outlook Report to assume that, with progress in efforts to take preventive measures against COVID-19 and improve economic activities simultaneously, COVID-19 would not spread again on such a large scale that the wide-ranging public health measures would need to be reinstated, and that the impact of COVID-19 would almost subside toward the end of the projection period.

Members concurred that, as the impact of COVID-19 waned gradually, overseas economies were likely to improve, partly supported by aggressive macroeconomic policies in each country and region, but the pace was expected to be only moderate. They also shared the view that, with the impact of COVID-19 almost subsiding, these economies were then likely to continue improving toward the end of the projection period as the production activity of the manufacturing industry was projected to continue recovering globally and face-to-face services consumption in particular was expected to recover gradually. Some members pointed out that risks to future developments included the consequences of COVID-19, the intensified 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.

Members agreed that Japan's exports of goods were expected to increase for the time being, mainly for automobile-related goods, and then increase for a wide range of goods, including capital goods, with the impact of COVID-19 waning globally. They also shared the recognition that inbound tourism consumption, which is categorized as services exports, was expected to remain subdued while entry restrictions continued, but was likely to recover thereafter along with a gradual easing in such restrictions.

Members concurred that private consumption was likely to continue picking up, supported also by the government's economic measures, but while vigilance against COVID-19 continued, the pace was expected to be quite moderate, mainly for face-to-face services consumption. In addition, they shared the recognition that thereafter, with households and firms adapting to a "new lifestyle" and the impact of COVID-19 waning, an uptrend in private consumption was likely to become evident gradually, supported also by improvement in employee income. In response to this, one member noted that the prices of land, which accounted for a larger share in individual assets than stocks, had turned to a decline, and there was concern over how this would affect consumer sentiment. Members shared the view that, although the government's economic measures and accommodative financial conditions were expected to support employment, the employment and income situation was projected to be under downward pressure for the time being against the background of deterioration in corporate profits and worsening labor market conditions. One member said that, in addition to deterioration in corporate profits having been spreading to employee income with a time lag, the decline in expectations for wage increases in 2021 and the spread of employment uncertainty were of concern. Nevertheless, members agreed that the employment and income situation was likely to turn to an improving trend thereafter, with domestic and external demand recovering. Meanwhile, a few members expressed their opinions on structural changes in wages and employment. One member commented that attention was warranted over the effect on wages of the loss of regular seniority-based wage increases. A different member said that, if firms prioritized sustaining employment and postponed reforms that aimed at increasing value-added, they would be forced to review their cost structure and downward pressure would be put on wages. The member continued, however, that an increasing number of large firms had revised their personnel systems from the seniority system and lifetime employment to a system based on tasks and performance, and that these reforms were expected to bring about increased mobility in employment.

Members concurred that business fixed investment was expected to remain on a declining trend for the time being, mainly in industries affected strongly by COVID-19. They shared the view that, however, with accommodative financial conditions being maintained, it was expected that the capital stock adjustment would not be as significant as that seen at the time of the GFC and that, with the impact of COVID-19 waning, business fixed investment would return to a moderate increasing trend along with improvement in corporate profits. A few members expressed the view that, with medium- to long-term growth expectations remaining unchanged, it was expected that such investment as research and development investment for growth areas and labor-saving investment would be firm, and the degree of decline in business fixed investment would be only small. In addition, one member expressed the view that, with a shift of investment from ownership to utilization and the wider use of cloud computing and sharing as a trend, Japan's overall investment efficiency would rise and overlapping investment would be avoided, but the situation should be monitored closely. Meanwhile, members agreed that public investment was projected to steadily increase, reflecting the progress in construction related to restoration and reconstruction following natural disasters, as well as to building national resilience, and that thereafter, it was expected to be at a relatively high level.

Based on this discussion, members concurred that, compared with the previous projections in the July Outlook Report, the projected growth rate was lower for fiscal 2020, mainly due to a delay in recovery in services demand, but was somewhat higher for fiscal 2021 and more or less unchanged for fiscal 2022. One member expressed the view that the scenario had been maintained that Japan was likely to recover its level of economic activity moderately while achieving prevention of the spread of COVID-19 and improvement in economic activity simultaneously.

Members then discussed <u>the baseline scenario of the outlook for Japan's price developments</u>. They agreed 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, the past decline in crude oil prices, and the "Go To Travel" campaign. Members shared the recognition that, with economic activity remaining at a low level due to the impact of COVID-19, it was expected that prices of goods and services that are sensitive to economic activity would be pushed down. They continued that the past decline in crude oil prices also was projected to push down the CPI through energy prices. Members concurred that, under these circumstances, medium- to long-term inflation expectations were likely to continue weakening somewhat. Meanwhile, a few members expressed the view that such factors as a discount on hotel charges due to the "Go To Travel" campaign were temporary changes to relative prices, and did not determine general price inflation. On this basis, one of these members said that, in terms of the short-term outlook, it was necessary to understand the background and effects of the relative price changes.

Members agreed that, thereafter, the year-on-year rate of change in the CPI was expected to turn positive, since downward pressure on prices was projected to wane gradually along with economic improvement, and the effects of such factors as the decline in crude oil prices were likely to dissipate. In addition, they shared the view that medium- to long-term inflation expectations also were expected to rise again, and that the year-on-year rate of change in the CPI was likely to increase gradually toward achieving the price stability target, although it would take time. One member pointed out that price cuts that aimed at stimulating demand had not been observed widely and the government's income support measures had supported household spending, and expressed the view that the risk of an overall and sustained decline in prices was judged as not significant. A different member noted that the pace of increase in inflation rate was expected to be quite moderate due to slow improvements in the output gap and inflation expectations as well as to the later effects of the past weak inflation rate. Given that, in Japan, the formation mechanism of inflation expectations was backward-looking and such expectations were sticky, this member added that it was difficult to envisage rationally that these expectations would rise in the near future.

Based on this discussion, members agreed that the projected rates of increase in the CPI were more or less unchanged, compared with the previous projections in the July Outlook Report.

Members then exchanged views regarding <u>the financial conditions</u> on which the above outlook was based.

Members reconfirmed that the Bank had pursued Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control and that it also had conducted various powerful monetary easing measures since March in response to COVID-19 with a view to supporting financing, mainly of firms, and maintaining stability in financial markets. In addition, they reaffirmed that the government had conducted various measures to support financing, mainly of firms, through programs that provided loans guaranteed by the credit guarantee corporations and also quasi-capital funds, and that private financial institutions had actively fulfilled the functioning of financial intermediation. Members then concurred that, in this situation, although firms' financial positions had been weak, the environment for external funding, such as bank borrowing and the issuance of CP and corporate bonds, remained accommodative. One member commented that, regarding corporate financing, the focus had started to shift from the end of this year, to the end of March 2021. On this basis, members shared the recognition that, owing to the Bank's and the government's measures, as well as efforts made by private financial institutions together with those measures, financial conditions would remain accommodative and further downward pressure on the real economy from the financial side would be avoided.

As for <u>upside and downside risks to economic activity and prices</u>, members then discussed those that required particular attention while the impact of the spread of COVID-19 remained.

First, with regard to <u>risks to economic activity</u>, members concurred that the outlook was extremely unclear, since it could change depending on the consequences of COVID-19 and the magnitude of their impact on domestic and overseas economies. They shared the recognition that households' and firms' future behavior at home and abroad was uncertain, with people voluntarily making precautionary efforts until COVID-19 subsided. Many members expressed the view that attention should be paid to the fact that restrictions on activity in response to a resurgence of COVID-19 were beginning to be introduced, mainly in Europe. One of these members commented that, in Europe and the United States, restrictions had been imposed on people's movement and on business activities such as in the eating and drinking services industry, and that it was becoming difficult to rule out the possibility of a double dip in the services industry. Another member said that whether the uptrend in the world trade volume and in Japan's exports and production would be maintained was highly uncertain, and the services sector was projected to recover at only a moderate pace globally. Given these circumstances, this member continued to hold a cautious view on the outlook toward the second half of the projection period. A different member expressed the recognition that Japan's economy had started to recover. However, the member then noted that, with the continuing effects of the economic downturn since autumn 2018, the consumption tax hikes, and COVID-19, the pace had been slow and there remained uncertainties over the level of economic activity after the economy recovered.

Members also agreed that, 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; however, these premises entailed high uncertainties. Among these uncertainties, members discussed in detail the risks to the financial system. They shared the recognition that, if COVID-19 had a larger impact than expected, there was a risk that deterioration in the real economy would affect financial system stability through the materialization of credit risk, thereby exerting further downward pressure on the real economy. One member expressed the view that attention should be paid to the points that it would take time to grasp the actual degree of firms' solvency and there was a possibility that the degree was lower than it appeared. One member pointed out that the future challenge for corporate financing would shift from addressing a liquidity problem in the short term to solving the issue related to sustaining businesses. On this basis, members shared the view that, although the risk that the real economy would be pushed down from the financial side was judged as not significant at this point, it was necessary to pay close attention to future developments.

In addition to the above, a few members expressed the view that risks to overseas economies entailed high uncertainties over geopolitical risks, political events, and the duration for which the government's support in each country would continue. These members continued that such risks were likely to remain skewed to the downside.

Regarding risks to prices, members shared the view that, if risks to economic activity materialized, prices also were likely to be affected accordingly. In addition, they concurred that risks that were specific to prices entailed high uncertainties over how firms would set their prices and how this would affect general prices from a macro perspective amid the impact of COVID-19 on both the demand and supply sides of economic activity. Members also shared the recognition that it was necessary to pay attention to the effects on prices of developments in international commodity prices, including those of crude oil, and future fluctuations in foreign exchange rates. One member expressed the view that price cuts that aimed at stimulating demand were not observed widely at present. However, the member continued that firms' price-setting behavior could be affected if the employment and income situation of households became more severe. A few members pointed out that careful attention should be paid to developments in prices and inflation expectations given, for example, that a decline in actual prices could affect people's perception of prices under the adaptive formation mechanism of inflation expectations, which was persistent in Japan. One member said that the Bank should be vigilant against the downside risks to prices and inflation expectations that reflected, for example, the employment and income situation remaining at a low level and possible turmoil in financial markets stemming from overseas developments.

Based on this discussion, members shared the view that, with regard to the risk balance, risks to both economic activity and prices were skewed to the downside, mainly due to the impact of COVID-19.

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 because, while the outlook for economic and financial developments was highly uncertain, the three measures could flexibly adapt to various changes in such developments that might occur in the near term, in that (1) there was sufficient capacity left in terms of the total size of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) no upper limit was set to the amount of JGB purchases, and (3) the purchase amount of assets such as ETFs could be increased significantly depending on market conditions. This member then noted that continuing with monetary easing by conducting the three measures would enable the Bank to achieve the price stability target through support for economic activity. A different 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. Another member commented that, while the current policy responses had had positive effects, it was still the top priority to ensure corporate financing and sustain employment. In addition, one member said that, during the COVID-19 era, while cooperating with the government's economic and fiscal policies, it was desirable for the Bank to conduct monetary policy, taking full consideration of the urgent issue of maintaining people's employment and income. This member continued that the Bank should avoid bringing a premature end to its current policy responses, including the measures taken in response to COVID-19, keeping in mind that the impact of the pandemic might be prolonged. Another member expressed the opinion that, given high uncertainties over future developments, the Bank should consider responses at an appropriate timing, including extension of the duration of the measures that were scheduled to be conducted until the end of March 2021. Meanwhile, one member noted 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 said that the Bank should exercise utmost vigilance against the possibility of a sudden change in financial markets and make policy responses flexibly when necessary, taking into account the effects of such a change on economic activity and prices. A different member noted that if economic recovery was delayed, firms' credit risk might materialize, affecting the financial system; thus, due attention should be paid to such possibility. This member then expressed the view that it was necessary for the Bank to continue to make policy responses swiftly and appropriately as needed, while firmly maintaining cooperation by, for example, exchanging information with the government and other major central banks.

Members deliberated over various points to take into account in relation to the conduct of monetary policy. Regarding the fact that upward pressure on the uncollateralized overnight call rate had increased somewhat recently, one member expressed the recognition that the Bank needed to carefully communicate with the market so that the increase would not be misinterpreted as a message that the Bank's monetary easing stance had weakened while other central banks had strengthened theirs. A different member said that it was desirable for the yield curve for super-long-term JGBs to become steeper at a moderate pace with the Bank keeping 10-year JGB yields at around 0 percent, in that financial institutions could gain profits on their investment and the Bank could achieve financial system stability while monetary easing was prolonged. In addition, this member commented that it was necessary to continue with active purchases of ETFs and J-REITs for the time being; however, given that monetary easing was expected to be prolonged, the Bank should further look for ways to enhance sustainability of the policy measure so that it would not face difficulty in conducting such purchases when a lowering of risk premia of asset prices was absolutely necessary.

As for other points to take into account, one member said that it was worthwhile to firmly support corporate financing, but attention should be paid to the possibility that the more prolonged the crisis response, the more the structural reforms toward sustainable growth would be delayed. A different member noted that, from the viewpoint of simultaneously achieving containment of the spread of COVID-19 and improvement in economic activity during the COVID-19 era, it was necessary for the Bank to deeply discuss policy responses that aimed at achieving the price stability target of 2 percent. In addition, one member expressed the view that, if COVID-19 spread again and economic activity was pushed down, the CPI could stay in negative territory for a protracted period and deflation might take hold; thus, this possibility warranted attention in conducting monetary policy. Moreover, one member said that, in order to encourage firms' efforts toward creating value-added, it was important to support establishing a system in which more investment funds for growth would be provided to firms, including financing for mergers and acquisitions and new issuance of bonds by non-investment-grade firms.

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 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, 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) Applications for budget requests for fiscal 2021 were closed on September 30, 2020, and the government had started to proceed with the budget formulation. Although fiscal conditions had deteriorated recently due to countermeasures in response to COVID-19, the government considered it their responsibility to overcome the current crisis and link the present to the future for the next generation, while steadily working toward achieving economic revitalization and fiscal soundness simultaneously. Under the New Plan to Advance Economic and Fiscal Revitalization, the government would continue with expenditure reforms and formulate a high-quality budget.

(2) At the recent Group of Twenty (G-20) meeting, it was reconfirmed that all available policy tools would continue to be used as long as required to support the global economic recovery and enhance the resilience of the financial system, while safeguarding against downside risks caused by COVID-19.

(3) The government would push forward with various measures with a view to overcoming deflation and achieving sustainable economic growth, together with responses to COVID-19. It expected the Bank to conduct necessary measures appropriately.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was showing movements of picking up, and was expected to continue doing so as the impact of COVID-19 waned. Nevertheless, it was necessary to closely monitor the course of COVID-19, particularly in Europe and the United States, and its impact on the Japanese economy, as well as the varied paces of recovery depending on industries and sectors.

(2) The government's responses, such as implementing the emergency economic measures, had already had considerable positive effects. The government would continue to do its utmost to retain employees and sustain businesses. With the Council on Economic and Fiscal Policy serving as the headquarters, it would also discuss the basic course of and important issues regarding reforms, such as digitalization, and then design and implement them.

(3) The government expected the Bank to continue conducting appropriate monetary policy while closely monitoring current and future developments.

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. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the October 2020 Outlook Report (consisting of "The Bank's View" and "The Background"). To reflect the view of the members, 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 unanimous 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 October 30.

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of September 16 and 17, 2020, for release on November 4.

Attachment
October 29, 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. 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.

   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 the novel coronavirus (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.