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March 24, 2021

Bank of Japan

Minutes of the Monetary Policy Meeting

on January 20 and 21, 2021

(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, January 20, 2021, from 2:00 p.m. to 3:27 p.m., and on Thursday, January 21, from 9:00 a.m. to 11:31 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[2]

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. SHINKAWA Hirotsugu, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance

Mr. AKAZAWA Ryosei, State Minister of Cabinet Office, Cabinet Office[3]

Mr. TAWA Hiroshi, Vice-Minister for Policy Coordination, Cabinet Office[4]

Reporting Staff

Mr. UCHIDA Shinichi, Executive Director

Ms. SHIMIZU Tokiko, Executive Director (Assistant Governor)

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on March 18 and 19, 2021, 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. Amamiya was present only on January 20. For the meeting on January 21, when he was absent, Mr. Amamiya submitted via the chairman his written opinion, in accordance with Article 5, paragraph 2 of the Rules concerning Policy Board Meetings.

[3] Mr. Akazawa was present on January 21.

[4] Mr. Tawa was present on January 20.

Mr. KAIZUKA Masaaki, Executive Director

Mr. SHIMIZU Seiichi, Director-General, Monetary Affairs Department

Mr. FUKUDA Eiji, Deputy Director-General, Monetary Affairs Department[5]

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. YANO Masayasu, Head of Policy Infrastructure Division, Monetary Affairs Department[5]

Mr. ICHISE Yoshitaka, Senior Economist, Monetary Affairs Department

Mr. NAGAE Shinichiro, Senior Economist, Monetary Affairs Department

Mr. KADOGAWA Yoichi, Senior Economist, Monetary Affairs Department

[5] Messrs. Fukuda and Yano were present on January 20 from 2:38 p.m. to 3:27 p.m.

I. Summary of Staff Reports on Economic and Financial Developments[6]

A. Market Operations in the Intermeeting Period

In accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both of which were decided at the previous meeting on December 17 and 18, 2020, the Bank had been conducting purchases of Japanese government bonds (JGBs).[7] 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. With regard to interest rates on overnight instruments, the uncollateralized call rate had been in the range of around minus 0.01 to minus 0.03 percent; general collateral (GC) repo rates had been in the range of around minus 0.07 to minus 0.10 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been more or less flat.

The Nikkei 225 Stock Average had risen, with market sentiment improving, partly due to expectations for additional economic measures in the United States and to an agreement on the trade deal between the European Union (EU) and the United Kingdom. Long-term interest rates had been at around 0 percent under yield curve control. As for

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

[7] 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.

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 foreign exchange market, the yen had been depreciating somewhat against the dollar, mainly in reflection of a rise in U.S. long-term interest rates, while it had been appreciating somewhat against the euro.

C. Overseas Economic and Financial Developments

Overseas economies had picked up, although the impact of a resurgence of COVID-19 had been seen in part. The number of confirmed new cases of COVID-19 continued to increase, particularly in the United States and Europe. Economic activities had been pushed down, mainly in the face-to-face services industry, while the public health measures in the U.S. and European economies that had been reinstated in autumn 2020 remained in place, and had been tightened in some of the economies. However, economic activities of industries other than the face-to-face services industry -- mainly manufacturing -- had been maintained thus far, and measures had been enhanced to contain the secondary spillover effects on economies, which could arise through deterioration in firms' financial positions and households' employment and income situation, as seen, for example, in the introduction of additional fiscal support measures in respective economies. In this situation, from a global perspective, business sentiment continued to improve clearly, mainly in the manufacturing industry, and the production level of this industry and the trade volume had generally recovered to the pre-pandemic levels seen around spring 2020. As for the outlook, overseas economies were likely to improve, partly supported by aggressive macroeconomic policies taken by each country and region. That said, it was highly likely that the pace would be only moderate and vary across areas for the time being, partly due to the impact of the resurgence of COVID-19, mainly in the United States and Europe. In addition, there were 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 picked up. Private consumption also had picked up, mainly for goods consumption, due in part to the effects of the government's measures to compensate for the decline in household income, although services consumption remained at a low level, with the number of confirmed new cases of COVID-19 continuing to rise. Housing investment had increased clearly, 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 started to pick up, mainly for machinery investment, although construction investment continued to decline.

The European economy had been pushed down by the resurgence of COVID-19, mainly for the services industry. As for private consumption, goods consumption remained firm but services consumption seemed to have been pushed down, with some economies implementing strict public health measures. With regard to the corporate sector, although business sentiment in the services industry had deteriorated due to the 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 continued to recover. Exports had increased. Private consumption had increased, mainly owing to an improvement in the employment and income situation, although the impact of COVID-19 remained in part. Fixed asset investment maintained its growth momentum, 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 also continued to increase.

Emerging economies other than China had picked up from a state of depression. The NIEs and the ASEAN countries had seen a pick-up in economic activity, mainly for exports, although domestic demand remained depressed in some economies due to the impact of COVID-19. In India and Brazil, a pick-up had been widely observed. The Russian economy had been pushed down due to the resurgence of COVID-19.

With respect to overseas financial markets, in advanced economies, since the beginning of 2021, U.S. and European stock prices had risen and long-term interest rates -- particularly those in the United States -- had increased somewhat significantly. This partly reflected expectations for additional economic measures in the United States in light of the outcome of its Senate elections amid continued expectations for the distribution of vaccines, although vigilance against the further spread of COVID-19 was strong. In the foreign exchange market, while the depreciation of the U.S. dollar had paused, currencies in emerging economies -- mainly Latin America -- had depreciated slightly due to such concerns as the spread of COVID-19. Crude oil prices had increased, mainly on the back of Saudi Arabia's decision to voluntarily implement additional production cuts.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had picked up as a trend, although it remained in a severe situation due to the impact of COVID-19 at home and abroad. Regarding the outlook, the economy was likely to continue picking up as a trend, supported by a recovery in external demand, accommodative financial conditions, and the government's economic measures. However, downward pressure stemming from the impact of the resurgence of COVID-19 was likely to remain strong for the time being, particularly in face-to-face services consumption.

Exports and industrial production continued to increase. Looking at real exports by goods, exports of automobile-related goods continued to increase clearly across a wider range of regions, reflecting a global recovery in automobile sales that had been supported by the materialization of pent-up demand. With firm exports of parts for data centers, those related to personal computers, and those for on-board equipment for motor vehicles, an uptrend in IT-related exports had been evident recently, also reflecting the positive effects of a rise in demand for parts related to new models of smartphones. Exports of capital goods had turned to an increase due to a global recovery in production activity and demand for machinery investment. As for the outlook, the pace of increase in exports and production was expected to decelerate for the time being, mainly for automobile-related goods, due to a peaking-out of pent-up demand. However, exports and production were likely to continue increasing, supported by a global recovery in demand for business fixed investment and steady IT-related demand.

Corporate profits and business sentiment had deteriorated significantly but subsequently had improved gradually. Business fixed investment had stopped declining on the whole, albeit with variations across industries. The aggregate supply of capital goods -- a coincident indicator of machinery investment -- had picked up, reflecting increases in exports and production. Private construction completed (nonresidential) -- a coincident indicator of construction investment -- remained on a moderate declining trend due to the materialization of the effects of a decrease in construction of stores and accommodation facilities, mainly by the eating and drinking as well as accommodation industries. With regard to machinery orders

-- a leading indicator of machinery investment -- a pick-up had become evident; those by the manufacturing industry had picked up clearly, reflecting increases in exports and production, and those by the nonmanufacturing industry, which had remained on a downtrend, had also risen recently, mainly on the back of digital-related investment. On the other hand, construction starts -- a leading indicator of construction investment -- generally remained on a declining trend. This was largely attributable to a decrease in construction of stores and accommodation facilities, mainly by the eating and drinking as well as accommodation industries. However, construction of such buildings as logistics facilities continued to increase on the back of expansion in e-commerce. As for the outlook, business fixed investment was likely to pick up, mainly for machinery investment by the manufacturing industry, reflecting a recovery in exports and production, although construction investment by the face-to-face services industry was expected to remain weak for the time being.

Private consumption had picked up gradually as a trend, but downward pressure stemming from the impact of the resurgence of COVID-19 and the declaration of a state of emergency had increased recently on consumption of services, such as eating and drinking as well as accommodations. As for goods consumption, automobile sales had increased. Sales of household electrical appliances remained firm on the back of an increase in demand due to people spending more time at home, but the rate of increase had decelerated compared to a while ago since the effects of the special cash payments, which had pushed up sales, had peaked out. Food and daily necessities remained firm on the back of the expansion in stay-at-home consumption. Services consumption had picked up gradually through November 2020, partly encouraged by the "Go To" campaign. Of such consumption, dining-out had increased gradually after spring 2020, when it had declined significantly, but the pick-up had paused in November, mainly affected by the resurgence of COVID-19. As for travel, there was still almost no overseas travel due to continued travel restrictions; on the other hand, domestic travel had continued to pick up on the whole through November, although there had been cancellations of travel to some areas where the "Go To Travel" campaign had been suspended earlier than the nationwide suspension. Based on anecdotal information from firms, statistics published by industry organizations, and high-frequency indicators such as the number of people going outside, developments in private consumption since December were as follows. While goods consumption had been steady on the whole, face-to-face services consumption seemed to have decreased significantly. Dining-out had declined markedly in December, mainly reflecting requests for business hour cuts and self-restraint from having year-end parties, and seemed to have decreased further since the turn of January 2021 due to the reinstatement of the state of emergency. Domestic travel appeared to have been declining clearly since December, mainly due to the impact of a suspension of the "Go To Travel" campaign. With regard to the outlook for private consumption, downward pressure, stemming mainly from the impact of COVID-19 and the reinstatement of the state of emergency, was highly likely to remain strong, particularly in face-to-face services consumption. Thereafter, with the state of emergency lifted and the impact of COVID-19 waning, private consumption was likely to pick up again, partly supported by the government's demand stimulus measures. That said, the pace of improvement was likely to be quite moderate as long as vigilance against COVID-19 continued.

The employment and income situation remained weak due to the impact of COVID-19. As for the employment situation, according to the *Labour Force Survey*, the year-on-year rate of change in the number of employed persons continued to register a negative figure of slightly more than minus 1 percent, when fluctuations were smoothed out, mainly due to a decrease in non-regular employees in the face-to-face services industry. The year-on-year rate of change in total hours worked per employee had been on an uptrend in negative territory on the whole, although relatively large negative growth was seen in some industries, such as accommodations as well as eating and drinking. With regard to labor market conditions, the active job openings-to-applicants ratio had stopped declining, mainly due to an increase in job openings that reflected a pick-up in economic activity. The labor force participation rate had increased, almost recovering to the level seen around the end of 2019, since those who had been out of the labor market in the April-June quarter of 2020, mainly seniors and women, continued to return to it. The unemployment rate had been at around 3 percent of late. Total cash earnings had declined, mainly due to a decrease in non-scheduled cash earnings. The year-on-year rate of change in special cash earnings had also been clearly negative, reflecting the recent deterioration in business performance. Employee income was projected to continue declining clearly for the time being, while lagging somewhat behind deterioration in business performance.

As for prices, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) had been 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 that stemmed mainly from a decline in sales and a rise in precautionary demand, both of which were due to the impact of COVID-19, remained at a high level, although an increase in demand by large firms in particular had leveled off. 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 extremely low levels. In this situation, the year-on-year rate of increase in the amount outstanding of bank lending had been at around 6 percent. That in the amount outstanding of CP and corporate bonds had been at a relatively high level that exceeded 10 percent, although the pace had slowed compared with a while ago. Thus, 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. The number of bankruptcies of firms had also been at a low level. However, although firms' financial positions had improved moderately, they remained weak, mainly reflecting the decline in sales due to the impact of COVID-19.

The year-on-year rate of increase in the monetary base had been in the range of 18.0-18.5 percent, and that in the money stock had been in the range of 9.0-9.5 percent.

II. Treatment of the Loan Support Program

A. Staff Reports

The Loan Support Program, consisting of the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth and the Fund-Provisioning Measure to Stimulate Bank Lending, had been in wide use. With a view to continuing to encourage financial institutions' efforts to strengthen the foundations for Japan's economic growth and stimulate bank lending, the staff proposed that the Bank extend by one year the deadlines for loan disbursements under these measures. Therefore, the staff also proposed that the Bank amend the Principal Terms and Conditions for the Loan Support Program and other related rules.

B. Discussion by the Policy Board and Vote

Members voted unanimously to approve the proposal. They agreed that an outline of the decision should be included in the Statement on Monetary Policy, and that the staff accordingly should make the details public after the meeting.

III. Summary of Discussions by the Policy Board on Economic and Financial Developments and the January 2021 *Outlook for Economic Activity and Prices*

A. Economic Developments

Members agreed that sentiment in global financial markets had improved, partly reflecting positive developments in vaccines and expectations for additional economic measures in the United States. That said, they shared the view that there existed lingering concern over various uncertainties that could lead to instability in financial markets, including the COVID-19 situation. One member noted that attention should be paid to how the markets would react if COVID-19 subsided early owing to the distribution of vaccines and other factors, while it was necessary to be vigilant against the risk of a sudden change in the markets due to, for example, the materialization of geopolitical risks. A different member said that there had been some developments that suggested a positive investment stance, such as the ratio of cash held by institutional investors being at a low level in the United States.

Members concurred that overseas economies had picked up, although the impact of the resurgence of COVID-19 had been seen in part. Some members pointed out that the pick-up in overseas economies had been uneven across countries, regions, and industries. One of these members commented that the current crisis entailed two characteristics: uncertainty, of which the biggest was the consequences of COVID-19, and unevenness that existed across regions, expenditure components, and industries.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had picked up. One member pointed out that it was continuing to do so, mainly for production and investment in the manufacturing industry, underpinned by large-scale fiscal spending and the Federal Reserve's monetary policy. One member expressed the view that growth expectations held by the young and middle-aged generations had not waned in the United States. Meanwhile, a few members stated that attention should be paid to the fact that the pace of improvement in employment had slowed since around November 2020.

Members shared the view that the European economy had been pushed down by the resurgence of COVID-19, mainly for the services industry. One member pointed out that uncertainties had declined temporarily, reflecting the agreement on the trade deal between the EU and the United Kingdom, but that attention was warranted on new factors that could push down the economy, such as the spread of highly contagious variants of COVID-19 and concerns over political developments in Italy. In addition, a different member expressed the recognition that it was difficult to avoid a temporary pause in the improving trend due to the resurgence of COVID-19.

Members concurred that the Chinese economy continued to recover. A few members pointed out that not only external but also domestic demand had recovered steadily.

Members shared the recognition that emerging economies had picked up from a state of depression. One member said that such economies had picked up on the back of the recovery in the Chinese economy as well as firm IT-related demand, albeit to varying degrees depending on the COVID-19 situation.

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.

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 shared the view that the economy had picked up as a trend, although it remained in a severe situation due to the impact of COVID-19 at home and abroad. One member commented that exports and production had increased and private consumption had picked up gradually on the whole, although the face-to-face services industry had been in an extremely severe situation due to the resurgence of COVID-19. One member pointed out that the economy continued to pick up, led by the manufacturing industry, mainly in terms of exports, production, and machinery investment. A few members noted that, as was the case in overseas economies, the pick-up in Japan's economy had been uneven -- as evidenced, for example, by firmness in the goods industry and the severe situation in the services industry -- and this characteristic had become more noticeable. Meanwhile, one member expressed the view that the recovery trend in the economy to date had leveled off temporarily due to the resurgence of COVID-19 at home and abroad, and the economy had weakened somewhat.

Members concurred that exports and production had increased on the back of the pick-up in overseas economies. One member expressed the view that they had been recovering at a faster pace than expected. Members shared the recognition that business fixed investment had stopped declining on the whole, albeit with variations across industries. One member expressed the recognition that, regarding the current situation, business fixed investment in Japan seemed to have stopped declining at an earlier stage compared with at the time of the Global Financial Crisis. However, this member continued that it was not sufficiently firm compared with that in countries such as the United States and China, where the appetite for digitalization-related investment in particular had been strong. With regard to private consumption, members shared the view that it had picked up gradually as a trend, but downward pressure had increased recently on consumption of services, such as eating and drinking as well as accommodations. One member pointed out that downward pressure on face-to-face services consumption seemed to have increased, according to such data as the number of people going outside based on location data and the number of visitors to restaurants. Members agreed that the employment and income situation remained weak due to the impact of COVID-19. On this basis, one member pointed out that the rising labor force participation rate suggested that the employment situation had bottomed out and was heading toward a moderate recovery.

As for prices, members shared the recognition that the year-on-year rate of change in the CPI had been 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. However, a few members expressed the recognition that price cuts that aimed at stimulating demand had not been observed widely. A few other members noted that, although inflation expectations had weakened somewhat, the underlying trend in inflation had been maintained, as seen, for example, in some indicators having stopped declining. One member commented that the year-on-year rate of decline in the CPI remained small relative to the deterioration in the output gap. Meanwhile, one member said that it was a matter of concern that price cuts on goods that are sensitive to economic activity had been observed.

B. Outlook for Economic Activity and Prices

In formulating the January 2021 *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 -- the economy, with the impact of COVID-19 waning gradually, was likely to follow an improving trend, supported by a recovery in external demand, accommodative financial conditions, and the government's economic measures. However, they continued that the pace of improvement was expected to be only moderate while vigilance against COVID-19 continued. Members agreed that, specifically, downward pressure stemming from the impact of the resurgence of COVID-19 was likely to remain strong for the time being, particularly in face-to-face services consumption. They also shared the view that, thereafter, as the impact subsided globally, the economy was projected to keep improving further with overseas economies returning to a steady growth path. Some members expressed the view that private consumption and employment were likely to be under downward pressure stemming from the resurgence of COVID-19 for the time being. However, these members continued that Japan's economy was expected to be underpinned to some extent by steady overseas demand and the government's economic measures through fiscal 2021. A different member pointed out that the distribution of vaccines was likely to generate positive effects from fiscal 2021 onward, although uncertainties were high. Members shared the recognition that, although there were extremely high uncertainties over the outlook for economic activity, it was appropriate in the January Outlook Report to assume that, while taking preventive measures against COVID-19 and improving economic activity simultaneously, the impact of COVID-19 would wane gradually and then almost subside toward the end of the projection period.

Members concurred that overseas economies were likely to continue improving, partly supported by aggressive macroeconomic policies, but the pace was expected to be only moderate while vigilance against COVID-19 continued. In addition, they agreed that production activity of the manufacturing industry and trade were expected to follow an increasing trend, whereas the recovery was projected to be slow in the face-to-face services industry, which was susceptible to the impact of COVID-19. However, members shared the view that overseas economies were likely to continue improving toward the end of the projection period since the face-to-face services industry in particular was expected to see a marked recovery as the impact of COVID-19 almost subsided. One member expressed the recognition that the decline in the services industry due to the resurgence of COVID-19 was likely to be offset to a certain extent by steady developments in the manufacturing industry and the effects of large-scale economic measures, and that a deceleration in the global economy would be avoided. Many members also noted that, with regard to overseas economies, the effects of, for example, U.S.-China relations under the new U.S. administration warranted attention. One of these members said that, in addition to the change of government in the United States, the replacement of the Chancellor of Germany was scheduled to take place in 2021, and that the impact of such changes in political developments overseas on efforts concerning climate change issues and on emerging economies warranted close monitoring.

Members concurred that Japan's exports of goods were projected to increase for a wide range of goods, including capital goods and IT-related goods, mainly on the back of a global recovery in production activity, although the pace of increase was likely to decelerate, mainly for automobile-related goods, due to a peaking-out of pent-up demand. They also shared the recognition that inbound tourism consumption, which is categorized under services exports, was expected to remain subdued while entry restrictions in Japan and travel restrictions abroad continued but likely to recover thereafter along with a gradual easing in such restrictions.

Members agreed that private consumption was likely to continue picking up as a trend, supported also by the government's economic measures. They continued, however, that downward pressure, stemming mainly from the impact of the resurgence of COVID-19, was expected to remain strong for the time being, particularly in face-to-face services consumption. One member said that the impact of the reinstatement of the state of emergency for 11 prefectures on face-to-face services, such as accommodations as well as eating and drinking, should be monitored carefully given that private consumption in these prefectures accounted for nearly 60 percent of Japan's. Members shared the view that, thereafter, with the impact of COVID-19 waning gradually, an uptrend in private consumption was likely to become evident gradually, supported also by improvement in employee income. They shared the recognition 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 low levels of corporate profits and worsening labor market conditions. One member pointed out that, if requests for business hour cuts and self-restraint from conducting businesses were prolonged due, for example, to an extension of the state of emergency, the employment situation would deteriorate, adversely affecting private consumption as well. However, members concurred that the employment and income situation was likely to turn to an improving trend thereafter, with domestic and external demand recovering.

Members agreed that business fixed investment was expected to pick up, mainly for machinery investment by the manufacturing industry that reflected a rise in exports and production, although construction investment by the face-to-face services industry was projected to continue declining. They also shared the view that, thereafter, business fixed investment was expected to increase, supported by accommodative financial conditions, the government's economic measures, and improvement in corporate profits. One member expressed the view that the government's comprehensive economic measures had laid out the direction of efforts in digitalization and decarbonization and enhanced predictability for business managers, which had brought about an environment facilitating firms' fixed investment. Meanwhile, members concurred that public investment was projected to steadily increase, reflecting progress such as in construction related to restoration and reconstruction following natural disasters, as well as to building national resilience, and that it was expected to be at a relatively high level thereafter. They also shared the view that government consumption was projected to continue increasing clearly through fiscal 2021, mainly reflecting the enhancement of the medical treatment system as well as the testing and vaccination system, both of which were under the additional economic measures.

Based on this discussion, members concurred that, compared with the previous projections in the October Outlook Report, the projected growth rates were somewhat higher, mainly for fiscal 2021, reflecting the effects of the government's economic measures in particular.

Members then discussed the baseline scenario of the outlook for Japan's price developments. 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. One member noted that it was necessary to closely monitor the effects on people's price perceptions of such factors as the reduction of public pension payments for fiscal 2021 -- which was expected to be conducted for the first time in four years -- and the results of the annual spring labor-management wage negotiations in 2021.

Members agreed that, thereafter, the year-on-year rate of change in the CPI was expected to turn positive and then increase gradually, 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 expressed the view that, as COVID-19 subsided, movement toward price rises was likely to resume along with economic improvement. This member continued, however, that improvement in medium- to long-term inflation expectations was projected to be only small, with the experience of COVID-19 being entrenched among households and firms. In addition, a different member expressed the view that, as for the outlook for prices, the pace of increase in the inflation rate was likely to be quite moderate, with the past weakness in prices exerting downward pressure through the backward-looking expectation formation, although it was expected that downward pressure stemming from the negative output gap would wane gradually and inflation expectations would contribute to pushing up prices, albeit marginally.

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 October Outlook Report.

Members then exchanged views regarding <u>the financial conditions</u> on which the above outlook was based. They shared the recognition that financing, mainly of firms, was likely to remain under stress for the time being with a moderate pace of economic improvement, but that, owing to the Bank's and the government's measures, as well as efforts made by private financial institutions, financial conditions would remain accommodative and further downward pressure on the real economy from the financial side would be avoided.

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

First, with regard to risks to economic activity, members concurred that the outlook continued to be extremely unclear, since it could change depending on the consequences of COVID-19 and the magnitude of their impact on domestic and overseas economies. One member pointed out that there were extremely high uncertainties over the impact of COVID-19 on economic activity and prices, in that it was likely to take a certain amount of time for the recent resurgence of COVID-19 to subside. This member said that, as the impact of COVID-19 had become prolonged, adjustment pressure on business fixed investment and employment had risen, such as in the eating and drinking as well as accommodation industries, and therefore attention should also be paid to the economy's recovery potential after COVID-19 subsided. Members also shared the recognition that, although the impact of COVID-19 could subside earlier than expected if vaccines became widely available, the pace of distribution and the effects of the vaccines entailed uncertainties. A few members noted that, with regard to overseas economies, such risks as a delay in the distribution of vaccines and the spread of highly contagious variants of COVID-19 warranted attention. One member said that, although issues related to vaccines were a new source of uncertainty, the situation had improved compared with 2020, when it had been extremely difficult to even envisage the consequences of COVID-19. One member commented that close attention had been paid to how the start of vaccinations in Japan would affect economic activity through a change in public sentiment. Meanwhile, a different member said that, depending on the consequences of COVID-19, measures such as an extension of the state of emergency, an expansion in areas where it would be declared, and a tightening of public health measures could be taken and, together with a deterioration in households' and firms' sentiment, there was a risk that stagnant economic activity and prices could become severe and be prolonged, particularly in face-to-face services.

Members also agreed that, while the impact of COVID-19 remained, growth expectations would not decline substantially and the smooth functioning of financial intermediation would be ensured; however, these premises entailed high uncertainties. One member emphasized that growth expectations had been largely maintained through policy responses, and that it was necessary to closely monitor whether or not firms' postponement of investment for the future, reflecting a deterioration in their financial positions, would spread. With regard to the financial system, one member expressed the recognition that, due to an expansion and prolongation of the impact of COVID-19, the number of bankruptcies of firms and discontinuation of businesses could increase, and in that case, there was a risk that a vicious cycle between financial and economic activity, which had been averted thus far, would emerge through an increase in credit costs.

In addition to the above, one member commented that the current economic shock had created not only gaps across countries and industries but also significant differences in households' sentiment across income classes, and that this imbalance could hamper long-term economic growth. A different member also noted that the recent global resurgence of COVID-19 had intensified unevenness across countries and regions as well as industries, rather than put significant downward pressure on the overall economy, and that this could lead to an expansion in the income gap across, for example, types of employment, age groups, and genders.

Regarding risks to prices, members shared the view that, if risks to economic activity materialized, prices also were likely to be affected accordingly. They concurred that risks 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. One member noted that, although price cuts that would lead to a decline in value-added had not been observed widely thus far, there was a risk that prices would remain low for a prolonged period, mainly in the nonmanufacturing industry, due to the resurgence of COVID-19. A different member commented that, while there was a possibility of increased deflationary pressure as the employment and income situation deteriorated due to COVID-19, from a medium- to long-term perspective, there was also a possibility of increased inflationary pressure due to such factors as the passing on of costs resulting from preventive measures against COVID-19 and a rise in raw materials prices, and that it was therefore desirable for the Bank to pay due attention to such a wide range of risks. 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.

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.

IV. Summary of Discussions on Monetary Policy

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

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 important 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 pointed out that accommodative financial conditions had been firmly maintained due to the series of powerful monetary easing measures. A few members said that neither bankruptcies of firms nor suspension and discontinuation of businesses had surged, with accommodative financial conditions being maintained. One of these members expressed the view that, while many firms seemed to have procured their funds for fiscal 2020, having secured ample on-hand liquidity in many cases, an increase in demand for funds that reflected the reinstatement of the state of emergency had been limited. Meanwhile, a different member commented that, given that COVID-19 had resurged since last autumn amid a situation where inflation momentum had been lost, risks of deflation seemed to have increased even more. This member continued that it was appropriate for the Bank to further strengthen its monetary easing stance in terms of yield curve control and its commitment regarding the future conduct of monetary policy.

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, at this point, there did not seem to be a high possibility that corporate financing would suddenly be under stress on the whole, but due attention should continue to be paid to it, including developments in the financial system, as there was a risk that firms' balance sheets would deteriorate in reflection of the resurgence of COVID-

19, mainly in the face-to-face services industry. One member said that, to determine whether scarring effects of COVID-19 would remain on Japan's economy, attention should be paid to firms' and households' growth expectations, developments in savings rates and inflation expectations, and stability in financial markets and the financial system. This member then pointed out that it was crucial not to allow the current crisis to become prolonged and that the Bank should focus on the impact on people's sentiment and fully support Japan's economy in crisis from the monetary policy side while cooperating with the government. A different member commented that, in order for monetary easing to have appropriate effects, it was important for the Bank to maintain cooperation with the government and other major central banks as before, thereby ensuring stability in financial markets and the financial system.

Members also deliberated on "Assessment for Further Effective and Sustainable Monetary Easing to Achieve the Price Stability Target of 2 Percent." Preceding the discussion, the chairman requested that the staff explain the main topics considered for the assessment.

The staff provided the following explanation. First, the Bank would make an assessment of the effects that Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control had had on financial conditions as well as on economic activity and prices. In doing so, it would assess the recent inflation mechanism in addition to the effects of such measures as the conduct of yield curve control and asset purchases. Second, the Bank would also reassess the effects of monetary easing on the functioning of financial intermediation and of financial markets.

Members shared the recognition that the points explained by the staff were appropriate topics for the assessment. One member expressed the view that it was necessary for the Bank to assess the effects that the large-scale monetary easing had had on financial conditions and developments in economic activity and prices -- specifically, whether such measures as the conduct of yield curve control and asset purchases had been exerting their intended effects -- in view of the comprehensive assessment conducted in 2016. One member expressed the recognition that the Bank should also reassess the side effects of monetary easing on the functioning of financial intermediation and of financial markets while taking into account that such effects have the tendency to accumulate.

On this basis, members shared the view that, in making the assessment, it was necessary for the Bank to seek more effective ways to conduct monetary policy in terms of striking a balance between costs and benefits, in order to conduct further effective monetary easing while minimizing possible side effects. One member said that, given that it would take more time than expected for the economy to recover, it was important for the Bank to analyze and assess policy effects with a view to making further sustainable and effective policy responses. This member added that, in doing so, the Bank should comprehensively examine monetary easing effects -- specifically, not only those on prices but on the overall economy, as seen in, for example, improvement in employment conditions and in the output gap.

Members also agreed that, in making the assessment, it was necessary to consider how the Bank could enhance the sustainability of its policy conduct during normal times, and at the same time be nimble in responding to changes in circumstances. One member expressed the view that, in terms of yield curve control and purchases of assets such as ETFs, it was crucial for the Bank to conduct them more flexibly in a prioritized manner while maintaining the policy framework, which had undergone necessary adjustments and was functioning effectively at present. One member expressed the view that it was worthwhile to examine the following points: (1) regarding yield curve control, whether the Bank could devise ways to prevent an excessive flattening of the yield curve and lower policy rates without hesitation when necessary, and (2) as for purchases of assets such as ETFs, whether the Bank could devise ways to purchase these assets more flexibly and implement large-scale purchases in case of a major shock. A different member commented that allowing 10-year JGB yields to move upward and downward to some extent in a manner consistent with the current guideline for market operations would meet the investment-management needs of financial institutions through market functioning, and thereby would contribute to financial system stability. This member added that, even in a situation where 10-year JGB yields were allowed to move to some extent, the effects on economic activity were likely to be limited, since most of the funds raised by firms and households were linked to short-term interest rates and the proportion of their funds that were affected by long-term interest rates was not high.

Moreover, members concurred that the main focus of the assessment was not on countermeasures to side effects of monetary easing but on how the Bank could be nimble in making effective responses while taking into consideration the side effects. A few members noted that the Bank should provide appropriate communication so that adjustments made to policy conduct and countermeasures to side effects would not be misinterpreted as a weakening of its monetary easing stance. One of these members emphasized that the Bank should reaffirm the significance of the price stability target of 2 percent and maintain the accommodative monetary policy regime. A different member said that, together with the assessment, it was necessary for the Bank to consider strategies toward achieving the price stability target of 2 percent.

In addition to the above discussions regarding the assessment, members expressed their opinions on various points to take into account in relation to the conduct of monetary policy. One member commented that it was important to encourage corporate activities for future growth, such as research and development investment, business portfolio reforms, and efforts in digitalization and decarbonization. On this basis, the member noted that it was crucial for the Bank to devise ways in terms of monetary policy conduct to help raise firms' and households' growth expectations by showing determination to never allow the economy to return to deflation and enhancing predictability for business managers through close cooperation with the government's efforts to increase medium- to long-term growth potential. In response, one member expressed the view that monetary easing was a measure that underpinned rises in growth potential and productivity, but that it was not easy for the Bank to directly deal with structural issues through the conduct of monetary policy. Meanwhile, one member pointed out that the number of auctions for market operations conducted by the Bank remained at a high level, and that the administrative burden, including on financial institutions, had therefore been heavy. This member then commented that it was essential to be innovative not only in terms of policy measures based on theories but also policy practices, through such means as digitalization.

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, with a view to responding to an increase in downward pressure on prices and encouraging firms to make active business fixed investment for the post-COVID-19 era.

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 September 2021, it would conduct additional purchases with an upper limit on the amount outstanding of these assets of about 15 trillion yen in total.

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 2020 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, in order to avoid Japan's economy returning to deflation, 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, thereby committing itself to conducting monetary policy based on concrete conditions.

V. Remarks by Government Representatives

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had been picking up from the bottom hit in the April-May period of 2020. However, it was still below the pre-pandemic level and a full recovery remained to be seen. In particular, it was necessary to pay due attention to the downside risks stemming from the recent resurgence of COVID-19.

(2) The government had instated a state of emergency for 11 prefectures in January 2021. This new state of emergency, mainly based on experiences and findings to date, strictly focused on constraining activities with high risk of leading to infection, and the government had been taking targeted and effective support measures that also made use of emergency funds. Moreover, in the government's economic outlook decided by the Cabinet recently, it was expected that the real GDP growth rate for fiscal 2021 would be approximately 4.0 percent and the economy would return to the pre-pandemic level by the end of the fiscal year. To realize this, the government had been devoting its utmost efforts.

(3) The government would make every effort to enhance the vaccination system so that vaccinations could start from the end of February.

(4) The government expected the Bank to continue to closely cooperate with the government while carefully monitoring the impact of COVID-19 on the economy as well as on financial and capital markets.

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

(1) The Japanese economy had been picking up, partly reflecting the policy effects of a series of supplementary budgets, although it remained in a severe situation due to the impact of

COVID-19. A state of emergency had been instated recently. While continuing to carefully examine the COVID-19 situation as well as the impact on the economy and people's livelihoods, it was important for the government to do its utmost to respond to COVID-19 and bring the Japanese economy back on a growth path.

(2) The government had submitted to the Diet the third supplementary budget for fiscal 2020 and the budget for fiscal 2021 in order to implement, for example, the comprehensive economic measures decided by the Cabinet in December 2020. It had been working to obtain approval from the Diet for these budgets at the earliest possible time so that it could steadily proceed with efforts in view of medium- to long-term issues such as the realization of a digitalized and green society, in addition to taking preventive measures against COVID-19.

(3) The government expected the Bank to conduct necessary measures appropriately, including responses to COVID-19, while cooperating with the government.

VI. Votes

A. Vote on the Guideline for Market Operations

Based on the above discussions, to reflect the majority view of the members, the chairman formulated the following proposal 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. 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.

Absent: Mr. AMAMIYA Masayoshi.

Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to responding to an increase in downward pressure on prices and encouraging firms to make active business fixed investment for the post-COVID-19 era.

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 September 2021, it will conduct additional purchases

with an upper limit on the amount outstanding of these assets of about 15 trillion yen in total.

Votes for the proposal: Mr. KURODA Haruhiko, 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.
Absent: Mr. AMAMIYA Masayoshi.

C. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. Mr. Kataoka expressed the opinion that, in order to avoid Japan's economy returning to deflation, 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).

VII. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the January 2021 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 January 22.

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of December 17 and 18, 2020, for release on January 26, 2021.

Attachment
January 21, 2021
Bank of Japan

Statement on Monetary Policy

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

   (1) Yield curve control

   The Bank decided, by a 7-1 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.[8]

   (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.[9]

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

[9] 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 September 2021, it will conduct additional purchases with an upper limit on the amount outstanding of these assets of about 15 trillion yen in total.

2. The Policy Board decided, by a unanimous vote, to extend by one year the deadlines for loan disbursements under the Fund-Provisioning Measure to Stimulate Bank Lending and the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth.

3. 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. 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. Absent: Mr. AMAMIYA Masayoshi. Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to responding to an increase in downward pressure on prices and encouraging firms to make active business fixed investment for the post-COVID-19 era.

[Note 2] Mr. Kataoka dissented, considering that, in order to avoid Japan's economy returning to deflation, 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.