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September 28, 2021

Bank of Japan

Minutes of the Monetary Policy Meeting

on July 15 and 16, 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 Thursday, July 15, 2021, from 2:00 p.m. to 3:58 p.m., and on Friday, July 16, from 9:00 a.m. to 11:49 a.m.[1]

Policy Board Members Present

Mr. KURODA Haruhiko, Chairman, Governor of the Bank of Japan
Mr. AMAMIYA Masayoshi, Deputy Governor of the Bank of Japan
Mr. WAKATABE Masazumi, Deputy Governor of the Bank of Japan
Mr. SUZUKI Hitoshi
Mr. KATAOKA Goushi
Mr. ADACHI Seiji
Mr. NAKAMURA Toyoaki
Mr. NOGUCHI Asahi
Ms. NAKAGAWA Junko

Government Representatives Present

Mr. NAKANISHI Kenji, State Minister of Finance, Ministry of Finance[2]
Mr. ONO Heihachiro, 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
Mr. YAMADA Yasuhiro, Executive Director
Ms. SHIMIZU Tokiko, Executive Director (Assistant Governor)
Mr. KAIZUKA Masaaki, Executive Director

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on September 21 and 22, 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] Messrs. Nakanishi and Akazawa were present on July 16.

[3] Messrs. Ono and Tawa were present on July 15.

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

Mr. FUKUDA Eiji, Deputy Director-General, Monetary Affairs Department[4]

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

Mr. MASAKI Kazuhiro, Director-General, Financial System and Bank Examination 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. HIROSHIMA Tetsuya, 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. NAKASHIMA Motoharu, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

Mr. NAGAE Shinichiro, Senior Economist, Monetary Affairs Department

Mr. ANDO Masatoshi, Senior Economist, Monetary Affairs Department

Mr. KADOGAWA Yoichi, Senior Economist, Monetary Affairs Department

[4] Messrs. Fukuda and Nakashima were present on July 16 from10:13 a.m. to 11:49 a.m.

I. Summary of Staff Reports on Economic and Financial Developments[5]

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 June 17 and 18, 2021, the Bank had been conducting purchases of Japanese government bonds (JGBs).[6] 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.

With a view to supporting financing, mainly of firms, and maintaining stability in financial markets, the Bank had taken the following measures: purchases of CP and corporate bonds and conduct of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19), both under the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19); flexible provision of ample funds, mainly through purchases of JGBs and conduct of the U.S. dollar funds-supplying operations; and purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

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 0.03 to minus 0.05 percent; general collateral (GC) repo rates had been in the range of around minus 0.07 to minus 0.09 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been more or less flat.

While U.S. stock prices had been rising, mainly driven by IT-related stocks, the Tokyo Stock Price Index (TOPIX) was generally unchanged, albeit with fluctuations; this reflected concerns over the difference in progress with vaccinations in Japan relative to the United States and Europe as well as the reinstatement of the state of emergency for Tokyo.

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5 Reports were made based on information available at the time of the meeting.

6 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.

Long-term interest rates had been at around 0 percent under yield curve control. In the 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 recovered on the whole, albeit with variation across countries and regions. Business sentiment globally had improved and the trade volume continued to increase clearly. In advanced economies, as public health measures had been lifted in stages, an improving trend in economic activity had been intensifying on the back of progress with vaccinations and governments' economic measures. On the other hand, in emerging economies, downward pressure from a resurgence of COVID-19 continued to be exerted, mainly on some ASEAN countries. As for the outlook, with the impact of COVID-19 waning gradually, overseas economies were likely to continue recovering on the whole, partly supported by aggressive macroeconomic policies taken mainly in advanced economies. That said, the pace of recovery was highly likely to be uneven across countries, primarily due to the different paces in the vaccine rollout. In addition, there remained high uncertainties over 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 recovered with economic activity resuming and on the back of additional economic measures that had already been implemented. The pace of increase in private consumption had accelerated, including services consumption, which had been constrained. Housing investment had been on an increasing trend, although such effects as of a shortage in building materials had been seen in part. As for the corporate sector, business sentiment kept improving clearly and production continued to increase. Under these circumstances, business fixed investment had increased, mainly for machinery investment.

The European economy had picked up from a state of being pushed down with public health measures being eased. Private consumption, including services consumption, had also picked up. With regard to the corporate sector, business sentiment had improved, mainly in the services industry, and exports and production had followed a pick-up trend. Under these circumstances, business fixed investment had picked up.

The Chinese economy continued to recover. Exports had increased. Private consumption also 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 continued to rise in a wide range of industries on the back of recovery in demand at home and abroad and firm corporate profits. Under these circumstances, production also continued to increase.

Emerging economies other than China maintained their pick-up trend on the whole, although domestic demand had been pushed down in some countries and regions due to the resurgence of COVID-19. The NIEs continued on a recovery trend with exports increasing, although some economies had been affected by the spread of COVID-19. The pace of pick-up in the ASEAN countries had decelerated as downward pressure on domestic demand had been intensifying in some countries, mainly reflecting the resurgence of COVID-19, although exports continued to increase.

With respect to overseas financial markets, long-term interest rates in advanced economies had declined due to diminishing vigilance against an earlier start to tapering and to a policy rate hike, both by the Federal Reserve. U.S. stock prices had risen, mainly driven by IT-related stocks, reflecting the decline in long-term interest rates. In addition, European stock prices had been at around record high levels. In the foreign exchange market, currencies in emerging economies had depreciated, reflecting the appreciation of the U.S. dollar following the Federal Open Market Committee (FOMC) meeting held on June 15 and 16, 2021; thereafter, they were more or less flat with the appreciation coming to a pause. Crude oil prices had risen, mainly due to a decrease in inventories in the United States.

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 recover, with the impact of COVID-19 waning gradually, mainly due to progress with vaccinations, and supported by an increase in external demand, accommodative financial conditions, and the government's economic measures. That said, while vigilance against COVID-19 continued, the level of economic activity, mainly in the face-to-face services sector, was expected to be lower than that prior to the pandemic for the time being.

Exports and industrial production continued to increase steadily against the background of the recovery in overseas economies. Looking at industrial production by industry, transport equipment production saw a deceleration in its pace of increase from the turn of 2021, mainly affected by a shortage of semiconductors, and had declined recently to a relatively large extent. Production of general-purpose, production, and business-oriented machinery continued to increase firmly, mainly for semiconductor production equipment and construction machinery, on the back of a recovery in demand for business fixed investment at home and abroad. Production of electronic parts and devices continued to increase evidently for a wide range of items, reflecting steady demand for parts for data centers, those related to smartphones and personal computers, and those for on-board equipment for motor vehicles. As for the outlook, exports and industrial production were likely to continue increasing steadily, mainly on the back of a mitigation of the effects of the semiconductor shortage in transport equipment production, as well as solid digital-related demand and a global recovery in demand for business fixed investment.

Corporate profits and business sentiment had improved on the whole, although weakness had been seen in some industries, such as face-to-face services. In the June 2021 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the diffusion index (DI) for business conditions for all industries and enterprises had improved for four consecutive quarters after hitting a bottom in the June 2020 survey. With regard to the manufacturing industry, although the DI for the automobile industry had deteriorated due to the effects of the semiconductor shortage, those for a wide range of industries continued to improve clearly. This was mainly on the back of the steady expansion in digital-related demand on a global basis and a pick-up in business fixed investment at home and abroad. As for the nonmanufacturing industry, the DI for the accommodations as well as eating and drinking services industries remained at a subdued level, affected by COVID-19 and public health measures. However, the DIs for such industries as goods rental and leasing, wholesaling, transport and postal activities, as well as services for individuals had improved, mainly reflecting a pick-up in economic activity and a resultant increase in logistics.

Business fixed investment had picked up, although weakness had been seen in some industries. Supported by improvement in corporate profits, the aggregate supply of capital goods -- a coincident indicator of machinery investment -- continued to increase firmly, mainly for digital-related goods, such as personal computers and goods related to base stations and 5G networks, and for construction machinery. Private construction completed (nonresidential) -- a coincident indicator of construction investment -- remained on a moderate declining trend due to such effects as a decrease in construction of stores and accommodation facilities, mainly by the eating and drinking as well as accommodations industries. However, the declining trend was coming to a halt. As for the outlook, an uptrend in business fixed investment was expected to become clear, supported by improvement in corporate profits and accommodative financial conditions. When fluctuations were smoothed out, machinery orders -- a leading indicator of machinery investment -- had shown a pick-up, mainly in the manufacturing industry. Planned expenses of construction starts -- a leading indicator of construction investment -- had picked up on the whole. This was because, although the construction of stores and accommodation facilities -- mainly by the eating and drinking as well as accommodations industries -- continued to decrease, construction starts had been supported by an increase in construction of such buildings as logistics facilities on the back of an expansion in e-commerce, as well as by progress in urban redevelopment projects and construction demand for medical, healthcare, and welfare services facilities. Looking at the business fixed investment plan in the June 2021 *Tankan*, business fixed investment -- including software and research and development (R&D) investments and excluding land purchasing expenses, for all industries and enterprises including financial institutions -- was minus 8.1 percent for fiscal 2020 in terms of the year-on-year rate of change, registering a decline for the first time in 10 years. However, the plan for fiscal 2021 showed that business fixed investment was likely to see a substantial year-on-year increase of 9.4 percent.

Private consumption had been stagnant due to strong downward pressure on consumption of services, such as eating and drinking as well as accommodations. The consumption activity index (CAI; real, travel balance adjusted) for the April-May period relative to the January-March quarter became negative due to the effects of a resurgence of COVID-19 and the resultant conduct of public health measures. Consumption of durable goods had seen a deceleration in its pace of increase recently, pushed down mainly by a decline in automobile sales reflecting supply-side constraints due to the semiconductor shortage. That of nondurable goods had decreased, mainly because demand for such items as clothes had waned, although food and daily necessities had been firm, supported by an expansion in stay-at-home demand. Services consumption had temporarily headed toward a pick-up in March but declined again for the April-May period, mainly affected by the resurgence of COVID-19. Looking at recent developments in private consumption based on anecdotal information from firms and high-frequency indicators such as the number of people going outside, consumption activity seemed to have stayed at a low level on the whole amid public health measures remaining in place, although signs of a pick-up had been seen in some services consumption from late June, partly owing to progress with vaccinations. As for dining-out, a recovery in the number of diners remained sluggish, since the serving of alcohol had only been partially resumed and requests to shorten operating hours remained in place. Domestic travel seemed to have stayed at a low level on the whole, as consumers -- including seniors, for whom vaccinations had progressed -- were still cautious about long-distance travel. The state of emergency declared recently for Tokyo and other prefectures was projected to continue to strongly push down face-to-face services consumption through the July-August period. In the outlook, private consumption, mainly of face-to-face services, was likely to be subdued at a low level as long as public health measures remained in place. However, thereafter, as the impact of COVID-19 waned gradually, mainly led by the progress with vaccinations, private consumption was expected to pick up again, supported also by the materialization of the pent-up demand.

The employment and income situation remained weak due to the impact of COVID-19. As for the employment situation, the number of employed persons in the *Labour Force Survey* had bottomed out, reflecting a pick-up trend in overall economic activity; however, it remained at a relatively low level, mainly for non-regular employees in the face-to-face services industry. On the other hand, underpinned by the adoption since April 2020 of the guideline that ensured the provision of equal pay for equal work, the number of regular employees continued to increase moderately, mainly in industries with a strong sense of labor shortage -- that is, the medical, healthcare, and welfare services as well as information and communications. The year-on-year rate of change in total cash earnings had been positive due to the base effect of the previous year's decline and an increase in scheduled cash earnings in some industries facing a strong sense of labor shortage. As for the outlook, employee income was likely to pick up, reflecting the pick-up in economic activity and improvement in business performance.

As for prices, international commodity prices had clearly been on an uptrend recently, partly due to the effects of supply-side constraints observed in some industries, in addition to the recovery in overseas economies and the subsequent expansion in demand for commodities. In this situation, firms' terms of trade seemed to have deteriorated, as evidenced by the fact that the DI for input prices showed a larger increase than that for output prices in the June 2021 *Tankan*. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) had been at around 0 percent recently due to a rise in energy prices, despite being affected by COVID-19 and a reduction in mobile phone charges. Meanwhile, inflation expectations were more or less unchanged. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to be at around 0 percent in the short run. Thereafter, it was expected to increase, mainly on the back of economic recovery and the rise in energy prices, while being affected by the reduction in mobile phone charges.

2. Financial environment

Financial conditions had been accommodative on the whole, although weakness in firms' financial positions had been seen.

Firms' demand for funds -- stemming mainly from a rise in precautionary demand due to the impact of COVID-19 -- had been at a high level on the whole, although some firms, particularly large ones, had started to repay loans by compressing their increased funds on hand. 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 rates of increase in the amount outstanding of bank lending and the aggregate amount outstanding of CP and corporate bonds had decelerated compared with the relatively high growth last year; the rates of increase had been in the ranges of 0.5-1.0 percent and 7.0-7.5 percent, respectively. 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. Meanwhile, although firms' financial positions had improved compared with a while ago, they remained weak due to such factors as a decline in sales that reflected the impact of COVID-19.

The year-on-year rate of change in the monetary base had been positive at around 20 percent, and that in the money stock had been at around 6 percent.

3. Financial system

Japan's financial system was maintaining stability on the whole.

Profits of major banks had been firm, mainly due to a rise in net interest income in line with an increase in the overall domestic loans outstanding. Their credit costs had risen substantially in fiscal 2020 relative to the previous fiscal year, but the pace of increase remained within the range of the revised fiscal year projections that reflected the impact of COVID-19, as the government and financial institutions actively supported financing, mainly of firms. Under these circumstances, major banks' capital adequacy ratios were more or less unchanged. Profits of regional banks and *shinkin* banks had also been firm, supported by an increase in the amount outstanding of loans related to COVID-19. Their credit costs in fiscal 2020 exceeded their revised fiscal year projections, partly owing to an increase in precautionary loan-loss provisioning toward the fiscal year-end. Their capital adequacy ratios were more or less unchanged.

With regard to the financial cycle, of the 14 Financial Activity Indexes (FAIXs) that comprise the heat map in the *Financial System Report*, five -- including one indicating the amount of financial institutions' credit relative to real economic activity -- showed upward deviations from the trends. Nevertheless, this was mainly the result of financial institutions responding to demand for working capital, particularly by firms, which had increased due to the impact of COVID-19, and therefore did not seem to show overheating of financial activities. It was necessary to pay close attention to whether debt repayment would proceed along with recovery in corporate profits and the amount of credit extended by financial institutions would return to a level consistent with real economic activity.

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

A. Economic Developments

Members agreed that, although global financial markets had become nervous temporarily, mainly against the background of price developments in the United States and speculation over the monetary policy conduct by the Federal Reserve, market sentiment remained favorable on the whole due to expectations for a recovery in the global economy that reflected progress with vaccinations.

Members concurred that overseas economies had recovered on the whole, albeit with variation across countries and regions. As factors that warranted attention regarding overseas economies, some members pointed to the unevenness in the pace of recovery across countries and regions, depending on progress with vaccinations, and the resurgence of COVID-19 due to the spread of variants. A few of these members said that differences in policy direction across countries had also started to become evident, reflecting the variation in economic and price developments of each country and region.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had recovered. One member expressed the view that a steady recovery in the economy, including the labor market, had been confirmed in hard data and this underpinned business sentiment, which was at a historically high level. A different member pointed out that the reason behind the fact that U.S. long-term interest rates had hardly increased, even on the back of economic recovery, might not only be the effective communications by the Federal Reserve but also the slack in supply-demand conditions remaining in such markets as the labor market. Regarding price developments in the United States, some members expressed the recognition that the recent rise in inflation was largely attributable to the bottlenecks on the supply side that reflected the rapid resumption of economic activity and was highly likely to be temporary. One of these members was of the view that the relatively high inflation rate observed recently was driven by price rises of some goods and services for which demand had surged, and that inflation would ease once the supply side caught up with demand.

Members shared the view that the European economy had picked up from a state of being pushed down. Some members expressed the view that, although the recovery momentum of the European economy was weaker than that of the U.S. economy, the pick-up in private consumption had become evident, as public health measures were being eased with the pace of vaccinations accelerating. One of these members noted that the possibility of a significant rise in the inflation rate, as observed in the United States, was beginning to be recognized in the euro area.

Members concurred that the Chinese economy continued to recover. One member said that domestic and external demand kept increasing steadily. On the other hand, one member noted that corporate profits had been stagnant. As for emerging economies other than China, members shared the recognition that these maintained their pick-up trend on the whole, although domestic demand had been pushed down in some countries and regions due to the resurgence of COVID-19.

Members concurred that financial conditions in Japan had been accommodative on the whole, although weakness in firms' financial positions had been seen.

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 as a trend, although it remained in a severe situation due to the impact of COVID-19 at home and abroad. A few members expressed the view that the economy had become increasingly polarized, as seen in the fact that the face-to-face services industry remained under strong downward pressure but the level of activity in manufacturing and other nonmanufacturing industries continued to recover at a steady pace.

Members agreed that exports and production continued to increase steadily. One member said that, with the recovery in overseas economies becoming further evident, exports and production continued to increase firmly, supported by an expansion in digital-related demand and a recovery in business fixed investment demand, both of which had been seen on a global basis, although automobile-related goods in particular had been affected by the shortage of semiconductors.

Members shared the recognition that business fixed investment had picked up, although weakness had been seen in some industries. One member noted that there were reports at the July 2021 meeting of general managers of the Bank's branches of an expansion of investments related to such areas as digitalization, R&D, and responses to climate change. On this basis, the member continued that a virtuous cycle from corporate profits to business fixed investment, triggered by an increase in external demand, had not been disrupted.

With regard to private consumption, members agreed that it had been stagnant due to strong downward pressure on consumption of services, such as eating and drinking as well as accommodations. One member said that, despite the progress with vaccinations for seniors, there were no signs thus far of their consumption increasing. Taking this into account, the member pointed out that, amid continued requests for self-restraint, such as from going outside and traveling, progress with vaccinations might not immediately lead to an expansion in economic activity.

Members concurred that the employment and income situation remained weak due to the impact of COVID-19. That said, one member viewed as positive that the results of recently released statistics -- including the June 2021 *Tankan* -- indicated that the sense of labor shortage had become somewhat strong, mainly in the manufacturing industry.

As for prices, members agreed that the year-on-year rate of change in the CPI had been at around 0 percent recently due to the rise in energy prices, despite being affected by COVID-19 and the reduction in mobile phone charges. One member said that the rate of change had been on an uptrend when excluding such temporary factors as the reduction in mobile phone charges. A different member expressed the view that firms' price cuts to stimulate demand still had not become widespread. A few members pointed out that the producer price index (PPI) had risen clearly, reflecting an increase in prices of raw materials, but this had only a limited impact on the CPI at present. With regard to inflation expectations, members shared the view that they were more or less unchanged. One member said that a growing number of indicators had started to suggest a heightening of inflation expectations on the back of a rise in commodity prices, as well as expectations for an economic recovery. On this point, a different member also pointed out that a larger proportion of firms in the *Tankan* surveys responded that output prices had risen. On the other hand, one member said that, despite rising international commodity prices, no significant change had been seen in inflation expectations and they were not yet strong enough to achieve the price stability target.

B. Outlook for Economic Activity and Prices

In formulating the July 2021 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), members discussed the baseline scenario of the outlook for Japan's economic activity. They shared the recognition that, while the state of emergency had been reinstated for Tokyo with the recent resurgence of COVID-19, the assumption that the impact of COVID-19 would wane gradually, mainly due to the widespread vaccinations, and then almost subside in the middle of the projection period could be maintained in the July Outlook Report. Based on this assumption, members agreed on the baseline scenario that, although the level of Japan's economic activity, mainly in the face-to-face services sector, was expected to be lower than that prior to the pandemic for the time being, the economy was likely to recover, with the impact of COVID-19 waning gradually and supported by the increase in external demand, accommodative financial conditions, and the government's economic measures. Furthermore, they shared the recognition that, thereafter, as the impact subsided, it was projected to continue growing with a virtuous cycle from income to spending intensifying.

One member noted that, as vaccinations progressed and COVID-19 subsided in Japan, savings in the private sector -- which had accumulated through both the fiscal support measures and the forced reduction in spending taken to date -- would be withdrawn and allocated to consumption, and that therefore the economy could be expected to grow at a pace above its potential. One member said that downward pressure on private consumption was likely to intensify in the short run due to the reinstatement of the state of emergency for Tokyo. This member continued that, however, from a somewhat long-term perspective, the recovery trend in the economy was projected to strengthen due to an expected increase in business fixed investment, supported by accommodative financial conditions. On the other hand, a few members expressed the view that the timing of a full-fledged recovery in the economy was likely to be somewhat delayed compared to the forecast shown in the April 2021 Outlook Report, reflecting the impact of the recent resurgence of COVID-19.

Members concurred that, as the impact of COVID-19 waned due to progress with vaccinations, overseas economies were likely to continue growing, supported also by aggressive macroeconomic policies taken mainly in advanced economies. On this basis, many members expressed the view that this outlook entailed high uncertainties as there were various risks. Specifically, members pointed to the following risks: the course COVID-19 would take, including variants; the pace of the vaccine rollout and the effects of the vaccines; the effects of macroeconomic policies taken in each economy; and geopolitical risks, such as those concerning the tension between the United States and China. One member drew attention to the reduction in the reserve requirement ratio in China, and noted that the risk of the Chinese economy decelerating should be borne in mind. A different member said that, if the rise in U.S. long-term interest rates accelerated, the risk of capital outflows from emerging economies warranted vigilance.

Members agreed that Japan's goods exports were projected to continue increasing firmly, supported by the expansion in digital-related demand and recovery in business fixed investment, both on a global basis. On the other hand, they shared the view that inbound tourism consumption, which is categorized under services exports, was expected to remain subdued while entry and travel restrictions continued but likely to recover thereafter.

Members concurred that an uptrend in business fixed investment was expected to become clear, mainly for machinery and digital-related investments -- supported by improvement in corporate profits, accommodative financial conditions, and the government's economic measures -- although construction investment by the face-to-face services sector was projected to remain weak for the time being. A few members commented that it was a positive sign that business fixed investment plans for fiscal 2021 in the June 2021 *Tankan* showed that such investment was expected to increase firmly, even though the increase was due in part to a rebound from the significant decline seen in fiscal 2020.

Members agreed that, although private consumption, mainly of face-to-face services, was likely to be at a relatively low level for the time being, it was expected to pick up again with the impact of COVID-19 waning gradually and supported also by the government's economic measures. Furthermore, they shared the view that, thereafter, as the impact subsided, an uptrend in private consumption, including that of face-to-face services, was projected to become evident, supported also by improvement in employee income. One member noted that, if public health measures were eased, mainly due to an acceleration in vaccinations, there was some possibility that private consumption would temporarily increase significantly, partly owing to a rebound from the prolonged self-restraint to date. A different member said that, although the materialization of pent-up demand for services brought about by withdrawals of accumulated cash and deposits was expected to push up the economy, the timing of such materialization was now more likely to be delayed as the state of emergency was in place for the period that overlapped with the summer vacation season.

Members shared the view that the employment and income situation was likely to turn to a pick-up with a time lag following the recovery in domestic and external demand, and then increase moderately. One member noted that, if households allocated some of their cash and deposits out of their asset holdings to stocks or investment trusts, they could expect to benefit from growth in overseas economies through dividends and other income, thereby increasing disposable income.

Based on this discussion, members concurred that, comparing the projections with those presented in the April 2021 Outlook Report, the projected growth rate for fiscal 2021 was somewhat lower due to the impact of COVID-19, but that for fiscal 2022 was somewhat higher.

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 at around 0 percent in the short run. As for the underlying trend in the CPI, members concurred that the year-on-year rate of change was likely to be steady at a slightly positive level, when excluding such temporary factors as the reduction in mobile phone charges and the rise in energy prices. As background to this outlook, they shared the view that, although weakness in demand amid the situation of COVID-19 was projected to have an impact on prices, it was likely that firms' price cuts that aimed at stimulating demand would still not be observed widely, given that one of the reasons for the decrease in demand was vigilance against COVID-19 and that there had been cost increases because of having taken preventive measures against COVID-19. As for points to take into consideration regarding the outlook for prices, a few members pointed to the possibility that the year-on-year rate of increase in the CPI would be revised downward due to the rebasing of the index to the base year of 2020, although this was not incorporated into the CPI forecasts presented in the July Outlook Report.

Members agreed that, thereafter, the year-on-year rate of change in the CPI was likely to increase gradually, mainly on the back of continued improvement in economic activity, the effects of the rise in energy prices for the time being, and a dissipation of the effects of the reduction in mobile phone charges. They shared the view that medium- to long-term inflation expectations were more or less unchanged, but also were likely to rise again as firms' price-setting stance gradually became active with the impact of COVID-19 subsiding. One member said that the inflation rate would likely see a relatively large acceleration when pent-up demand materialized on the back of progress with vaccinations; however, such developments might be only transitory in Japan as there was persistent downward pressure on prices through the adaptive formation mechanism of inflation expectations due to the experience of prolonged deflation. A different member noted that, in addition to that experience, heightened anxiety among firms and households, which mainly stemmed from COVID-19, could slow the pace of price increases by pushing down inflation expectations.

Based on this discussion, members agreed that, compared with the previous projections in the April Outlook Report, the projected rate of increase in the CPI for fiscal 2021 was higher, mainly due to higher energy prices.

Meanwhile, members also exchanged views regarding the financial conditions on which the above outlook was based. They shared the recognition that, owing to the continuation of powerful monetary easing by the Bank, the government's measures, and 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. One member said that recent developments in corporate financing -- such as those regarding funding through subordinated bonds and equity financing -- showed that the focus in firms' financial strategies had shifted from one of securing liquidity to one of improving capital sufficiency. This member continued that maintaining the current accommodative financial conditions in the long term could provide support to such positive developments in corporate financing. A different member commented that it was necessary to closely monitor how changes in the environment surrounding foreign exchange markets in recent years -- such as changes in price-setting behavior of exporting firms and expansion of overseas local production -- would influence the transmission channels of a decline in interest rates.

Members then discussed upside and downside risks to economic activity and prices.

First, with regard to risks to economic activity, members concurred that the consequences of COVID-19 and their impact on domestic and overseas economies entailed high uncertainties. Specifically, they shared the view that there was a risk that downward pressure on Japan's economy would increase due to the spread of COVID-19, including variants, but on the other hand, if, for example, the vaccine rollout accelerated and pent-up demand for services consumption materialized relatively early, economic activity could improve by more than expected. Regarding the downside risk, one member pointed out that, since the variants were highly contagious, even if vaccinations progressed at an adequate pace, COVID-19 cases could resurge and the economy could be pushed down. A different member expressed the view that, with the prolonged impact of COVID-19, it was necessary to pay attention to the structural changes in the consumption activity of individuals, as seen in an expansion in e-commerce, and to supply-side constraints caused mainly by the downsizing of existing businesses. Another member said that attention should be paid to the risk of an increase in the number of sole proprietors losing their will to continue their businesses and choosing, for example, to go bankrupt, or to suspend or discontinue their businesses due to the prolonged impact of COVID-19, thereby leading to a deterioration in the employment situation.

Members concurred that there had also been high uncertainties regarding firms' and households' medium- to long-term growth expectations. One member expressed the view that, in a situation where real interest rates had been declining with a rise in firms' inflation expectations and where structural factors such as digitalization and addressing climate-related risks had been contributing to an increase in investment, it was possible that firms' growth expectations would strengthen and they would move into a phase of active accumulation of capital stock. On the other hand, one member -- noting that this fiscal year's strong fixed investment plans were significantly attributable to the postponement of projects that could not be carried out in the previous fiscal year -- pointed out that risks of firms' investment for growth and structural reforms being postponed had been heightening, with prolonged policy support during the COVID-19 pandemic and increasing corporate debt. A different member said that it was a matter of concern that, in Japan, stock prices -- which reflected future growth expectations -- had been relatively weak compared with those in Europe and the United States. Meanwhile, one member expressed the opinion that, in the future, moves to secure fiscal resources for the economic measures taken in response to COVID-19 could affect economic activity, mainly through firms' and households' growth expectations, and therefore forthcoming discussions on fiscal soundness warranted close attention.

Members also discussed developments in the financial system and related risks. They agreed that the financial system was maintaining stability on the whole. Members also shared the view that, against this background, the smooth functioning of financial intermediation would be ensured while the impact of COVID-19 remained, but this premise entailed high uncertainties. A few members expressed the view that, as the impact of COVID-19 continued, debts, mainly of firms, had been increasing somewhat markedly relative to economic activity, but this was because financial institutions had responded to increased demand for funds, and therefore did not show overheating of financial activities. One member noted that, because the pace of increase in deposits had exceeded that of loans due to the impact of COVID-19, and the loan-to-deposit ratio had declined further, the situation surrounding financial institutions' profit structure was becoming more severe. On this basis, members shared the recognition that, from a longer-term perspective, if the downward pressure on financial institutions' profits became prolonged, there would be risks of both a gradual pullback in financial intermediation activities and of increased vulnerability of the financial system that was mainly due to an overheating of a search for yield behavior. They also shared the view that these risks were not significant at this point, mainly because financial institutions had sufficient capital bases, but it was necessary to pay close attention to future developments.

Regarding risks to prices, members agreed that, if risks to economic activity materialized, prices also were likely to be affected accordingly. Based on this, they also discussed risks specific to prices. Members agreed that the projection that firms' price-setting behavior would gradually become active with the impact of COVID-19 subsiding entailed uncertainties. On this point, one member said that it was necessary to consider that the entrenched mechanism of adaptive inflation expectations formation in Japan was complex and sticky. In addition to such uncertainties regarding price-setting behavior, members shared the view that future developments in foreign exchange rates, international commodity prices, and import prices, as well as the effects of such developments on domestic prices, were also risks that might lead prices to deviate either upward or downward from the baseline scenario, and thus attention should be paid to them, including the extent to which cost increases were passed on to prices. With regard to the recent rise in international commodity prices, one member stated that this was mainly due to the increase in global demand, which generally had positive effects on Japan's economy as a whole. This member continued that, however, it was necessary to pay attention to the fact that the effects of the deterioration in the terms of trade varied significantly depending on industry and firm size.

Based on these discussions, members shared the recognition that, with regard to the risk balance, risks to economic activity were skewed to the downside for the time being, mainly due to the impact of COVID-19, but were generally balanced for the middle of the projection period onward. They also concurred that risks to prices were skewed to the downside.

III. Staff Reports on the New Fund-Provisioning Measure to Provide Funds against Investment or Loans That Address Climate Change

Regarding the new fund-provisioning measure, which the Bank decided to introduce at the Monetary Policy Meeting held on June 17 and 18, 2021, and through which it would provide funds to financial institutions for investment or loans that they make to address climate change issues based on their own decisions, the Bank's staff reported the following points for consideration.

As for eligible counterparties of this measure, it would be appropriate that they be financial institutions that disclose a certain level of information on their efforts to address climate change and wish to be counterparties for the measure among the counterparties for the Funds-Supplying Operations against Pooled Collateral (at All Offices), with a view to ensuring that discipline would be exercised when using the scheme.

Eligible investment or loans against which the Bank would provide funds could be investment or loans made by counterparties as part of their aforementioned efforts that contributed to Japan's actions to address climate change. Climate change is a global challenge, but as each country was making its own efforts to achieve carbon neutrality, it would be appropriate for the Bank, as the central bank of Japan, to design a scheme that supports Japan's actions to address climate change. The types of eligible investment or loans could include (1) green loans or bonds, (2) sustainability-linked loans or bonds with performance targets related to efforts on climate change, and (3) transition finance.

It would be appropriate that the terms and conditions of the new fund-provisioning measure be as follows. Regarding the method of fund-provisioning, yen-denominated funds would be provided against pooled collateral. The interest rate would be 0 percent. Twice as much as the amount outstanding of funds counterparties receive would be added to the Macro Add-on Balances in their current accounts at the Bank under the Complementary Deposit Facility. In the Interest Scheme to Promote Lending, this measure would fall under Category III for which the applied interest rate (payable from the Bank to counterparties) was 0 percent. Funds would be provided for one year in principle, and rollovers could be made within the amounts outstanding of eligible investment or loans for an unlimited number of times until the end of the implementation period of the measure. This would effectively enable counterparties to receive long-term financing from the Bank for their eligible investment or loans.

With regard to the launch timing and implementation period, the Bank could launch the measure likely within 2021, and given that it would require considerable time to address climate change, it would be appropriate for the Bank to implement the measure until the end of March 2031 in principle, unless this interfered with the smooth conduct of market operations.

Based on the above points for consideration, the staff proposed a preliminary outline of the new fund-provisioning measure. Upon an exchange of views with financial institutions and examination of operational details based on the preliminary outline, the staff would submit the principal terms and conditions at a future Monetary Policy Meeting for approval.

IV. Summary of Discussions on Monetary Policy

Members discussed monetary policy based on the above assessment of economic and financial developments as well as the staff reports on the fund-provisioning measure to support efforts on climate change.

Regarding the Bank's basic stance on conducting monetary policy for the time being, members agreed 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) purchases of ETFs and J-REITs -- had been exerting their intended effects. They also agreed 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 said that current developments did not call for changes to the existing monetary easing measures, taking into account such factors as financial positions remaining weak, primarily in the face-to-face services sector. 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.

Furthermore, members expressed their opinions on various points to take into account in relation to the conduct of monetary policy. One member said that, even though the year-on-year rate of change in the CPI excluding fresh food was likely to increase on the back of the rise in commodity prices, there was still a long way to go to achieve the price stability target of 2 percent and maintain that level in a stable manner while the Bank also adopted the inflation-overshooting commitment; thus, it was important not to tighten monetary policy prematurely. The member continued that it was necessary for the Bank to engage in careful communication regarding this monetary policy stance. One member commented that, since the deflationary mindset was strongly entrenched in Japan, the Bank should persistently continue with monetary easing, while cooperating with the government, so as to achieve the price stability target of 2 percent. Meanwhile, a different member expressed the view that the Bank should strengthen its monetary easing stance with a view to improving the output gap and inflation expectations, and thereby achieve an economic recovery and the price stability target early.

Members also discussed the Preliminary Outline of the Fund-Provisioning Measure to Support Efforts on Climate Change. With regard to eligible counterparties, they concurred that, with a view to ensuring that discipline would be exercised when using the scheme, while leaving to the counterparties themselves the concrete decisions on which investment or loans would be eligible, the following would be appropriate: eligible counterparties would be financial institutions that disclose a certain level of information on their efforts to address climate change and wish to be counterparties for the measure among the counterparties for the Funds-Supplying Operations against Pooled Collateral (at All Offices). One member, noting that indirect financing has a major role in Japan, commented that, if the Bank directly intervened in addressing climate change, various distortions might occur in the financial system; this could be avoided with the new fund-provisioning measure, which would support investment or loans that financial institutions make to address climate change based on their own decisions. A different member said that, given that financial institutions' loosening judgment on which investment or loans are eligible could cause the public to lose confidence in the scheme, it was important that the measure be one where discipline would be exercised through the requirement of a certain level of disclosure. Regarding disclosure, a few members including this member expressed the view that, mainly from the viewpoint of policy accountability, the Bank should consider the need for not only ex ante but also ex post disclosure, the latter including how the scheme is used. As for <u>eligible investment or loans</u>, members agreed that it would be appropriate for funds to be provided against those made by counterparties as part of their efforts to contribute to Japan's actions to address climate change. One member said that, while climate change is a global challenge, given the actions currently being taken in each country, it would be appropriate for the Bank to support efforts that contributed to Japan's actions to address climate change. Some members expressed the view that, given such factors as the size of the impact of transition risks on Japan's economy, the measure should cover transition finance. A different member commented that, taking into account the fluidity of the external environment surrounding climate change, the Bank should carefully decide on the scope of the measure to support efforts on climate change while paying due attention to the relationship with its mandate as a central bank. With regard to <u>the terms and conditions of the new fund-provisioning measure</u>, members agreed on the following: as for the method of fund-provisioning, yen-denominated funds would be provided against pooled collateral at a 0 percent interest rate; twice as much as the amount outstanding of funds counterparties receive would be added to the Macro Add-on Balances in their current accounts at the Bank under the Complementary Deposit Facility, while in the Interest Scheme to Promote Lending, this measure would fall under Category III, for which the applied interest rate (payable from the Bank to counterparties) was 0 percent. The members also shared the view that, as for the duration of fund-provisioning, it would be appropriate that funds be provided for one year in principle, and that until the end of the implementation period of the measure, rollovers be made within the amounts outstanding of eligible investment or loans for an unlimited number of times. One member said that, considering, for example, that most investment and loans that contribute to Japan's actions to address climate change would be yen denominated, the same should be the case for the new fund-provisioning measure. This member was also of the following view. With regard to the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19), the Bank applied positive interest rates as strong incentives to counterparties' current account balances in the Interest Scheme to Promote Lending, so as to support financing, mainly of firms, without delay; in contrast, the new fund-provisioning measure would be conducted over a long period, for which reason the applied interest rate in the scheme should be 0 percent. As for the launch timing and implementation period, members shared the view that it would be appropriate for the Bank to launch the measure likely within 2021, and for it to be implemented until the end of March 2031 in principle.

Based on this discussion, members shared the recognition that the preliminary outline of the new fund-provisioning measure reported by the staff was appropriate. One member said that the measure was appropriate, in that it gave consideration to market neutrality and allowed for policy flexibility at the same time. A different member noted that the measure as a whole was appropriate since it considered both (1) the mandate as the central bank of Japan to achieve price stability, thereby contributing to the sound development of the national economy, and (2) the central bank's standpoint of avoiding as much as possible involvement in micro-level resource allocation.

Members also discussed points to take into account in relation to addressing climate change. One member commented that it was critically important that the Bank clearly explain its stance and strategy toward addressing climate change, so that not only market participants at home and abroad but also a wide range of Japanese citizens gain an accurate understanding of the Bank's efforts. Some members emphasized the view that it was important for the Bank to further carry out research and studies, without having any preconceptions, regarding the impact of climate change on economic activity and prices. One of these members said that the policy effects of the new fund-provisioning measure should be reviewed. Another of these members noted that, triggered by the Bank's latest measure, further studies on the macroeconomic implications of climate change could be conducted in various fields, and the Bank could make use of the findings of such studies. Furthermore, one member said that, in order to make economic and social transformation toward addressing climate change, an ecosystem needed to be established where a large amount of funds was invested in a sustainable manner. The member continued that the Bank should contribute to the transformation by, for example, disseminating necessary information while appropriately grasping changes in the situation, such as developments in the tax system and market infrastructures.

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.

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 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 as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding. Second, the Bank would purchase CP and corporate bonds with an upper limit on the amount outstanding of about 20 trillion yen in total until the end of March 2022.

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

With regard to the measures that the Bank had introduced and strengthened since March 2020 in response to the impact of COVID-19, members shared the view that it would continue to support financing, mainly of firms, and maintain stability in financial markets through (1) the Special Program, (2) an ample provision of yen and foreign currency funds without setting upper limits, and (3) purchases of ETFs and J-REITs.

Regarding its policy stance for the time being, members concurred 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 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.

V. Remarks by Government Representatives

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

(1) At the Group of Twenty (G20) meeting held on July 9 and 10, climate change was among the issues discussed and there was progress with international cooperation. The Bank's new fund-provisioning measure to support efforts on climate change was in line with this global trend.

(2) The guidelines for budget requests for fiscal 2022 were approved by the Cabinet on July 7. The budget would focus on areas that would drive new growth, including the green society. The government would pursue economic revitalization and fiscal soundness while continuing to make efforts toward expenditure reforms.

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

The representative from the Cabinet Office made the following remarks.

(1) In the Cabinet Office's mid-year economic projection released on July 6, it was expected that Japan's real GDP would recover to the pre-pandemic level within 2021 and be at a record high for fiscal 2022.

(2) The government recognized that a particularly concerning aspect of COVID-19 was that it put hospital bed occupancy under strain. Although COVID-19 cases could resurge repeatedly even with vaccinations progressing, the government considered it important to make vaccines widely available and prevent the number of available hospital beds from coming under strain. Thereafter, the government would principally work to maximize economic activity.

(3) The government would continue to swiftly conduct vaccinations. Based on the Basic Policy on Economic and Fiscal Management and Reform 2021, it would make efforts to realize strong growth led by private demand and to create an environment where wage increases were possible.

(4) The government recognized that the introduction of the Bank's fund-provisioning measure to support efforts on climate change had been decided in a timely manner, in that it was in line with the government's efforts to achieve the green society. It would continue to conduct flexible macroeconomic policy management toward sustained economic growth without hesitation, making use of emergency funds as well as the carryover budget from fiscal 2020 in a flexible manner. It expected the Bank to continue to closely cooperate 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.

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SUZUKI Hitoshi, Mr. ADACHI Seiji, Mr. NAKAMURA Toyoaki, Mr. NOGUCHI Asahi, and Ms. NAKAGAWA Junko.
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, with a view to 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. The Bank will purchase ETFs and J-REITs as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

2. The Bank will purchase CP and corporate bonds with an upper limit on the amount outstanding of about 20 trillion yen in total until the end of March 2022.

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SUZUKI Hitoshi, Mr. KATAOKA Goushi, Mr. ADACHI Seiji, Mr. NAKAMURA Toyoaki, Mr. NOGUCHI Asahi, and Ms. NAKAGAWA Junko.

Votes against the proposal: None.

C. Vote on "Preliminary Outline of the Fund-Provisioning Measure to Support Efforts on Climate Change"

The chairman formulated a proposal on "Preliminary Outline of the Fund-Provisioning Measure to Support Efforts on Climate Change," shown in Attachment 2, and put it to a vote. The Policy Board decided the proposal by a unanimous vote.

D. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy, which included "Preliminary Outline of the Fund-Provisioning Measure to Support Efforts on Climate Change." Mr. Kataoka expressed the opinion that 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 1).

VII. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the July 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 July 19.

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of June 17 and 18, 2021, for release on July 21.

IX. Approval of the Scheduled Dates of the Monetary Policy Meetings

The Policy Board approved unanimously the dates of the Monetary Policy Meetings to be held in 2022 and agreed to make this public after the meeting.

Attachment 1

July 16, 2021

Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting (MPM) 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.

   (2) Guidelines for asset purchases

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

   a) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

   b) The Bank will purchase CP and corporate bonds with an upper limit on the amount outstanding of about 20 trillion yen in total until the end of March 2022.

2. At the previous MPM, the Bank announced that it would introduce a new fund-provisioning measure to support private financial institutions' various efforts in fields related to climate change. It decided, by a unanimous vote, on the preliminary outline of the measure at this MPM (see Attachment 2).

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) purchases of ETFs and J-REITs with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

   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. SUZUKI Hitoshi, Mr. ADACHI Seiji, Mr. NAKAMURA Toyoaki, Mr. NOGUCHI Asahi, and Ms. NAKAGAWA Junko. 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, with a view to encouraging firms to make active business fixed investment for the post-COVID-19 era.

[Note 2] Mr. Kataoka dissented, considering that 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.

Attachment 2

Preliminary Outline of the Fund-Provisioning Measure to Support Efforts on Climate Change

1. Eligible Counterparties

   Eligible counterparties will be financial institutions that disclose a certain level of information on their efforts to address climate change and wish to be counterparties for the measure among the counterparties for the Funds-Supplying Operations against Pooled Collateral (at All Offices).

2. Eligible Investment or Loans

   Of the investment or loans made by counterparties as part of their aforementioned efforts, funds will be provided against those that contribute to Japan's actions to address climate change.

   - These may include (1) green loans/bonds, (2) sustainability-linked loans/bonds with performance targets related to efforts on climate change, and (3) transition finance.

3. Method of Fund-Provisioning

   Yen-denominated funds will be provided against pooled collateral.

4. Interest Rate, Categorization in the Interest Scheme to Promote Lending, etc.

   The interest rate will be 0 percent.

   Twice as much as the amount outstanding of funds counterparties receive will be added to the Macro Add-on Balances in their current accounts at the Bank.

   In the Interest Scheme to Promote Lending, this measure will fall under Category III for which the applied interest rate (payable from the Bank to counterparties) is 0 percent.

5. Duration of Fund-Provisioning

   Funds will be provided for one year in principle.

Until the end of the implementation period of the measure, rollovers can be made within the amounts outstanding of eligible investment or loans for an unlimited number of times.

- Effectively, counterparties can receive long-term financing from the Bank for their eligible investment or loans.

6. Launch Timing and Implementation Period

The Bank will launch the measure likely within 2021.

The measure will be implemented until the end of March 2031 in principle (unless the smooth conduct of market operations is interfered).