Not to be released until 8:50 a.m. Japan Standard Time on Wednesday, November 6, 2019.

November 6, 2019

Bank of Japan

Minutes of the Monetary Policy Meeting

on September 18 and 19, 2019

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Wednesday, September 18, 2019, from 2:00 p.m. to 3:57 p.m., and on Thursday, September 19, from 9:00 a.m. to 11:42 a.m.[1]

Policy Board Members Present

Mr. H. Kuroda, Chairman, Governor of the Bank of Japan

Mr. M. Amamiya, Deputy Governor of the Bank of Japan

Mr. M. Wakatabe, Deputy Governor of the Bank of Japan

Mr. Y. Harada

Mr. Y. Funo

Mr. M. Sakurai

Ms. T. Masai

Mr. H. Suzuki

Mr. G. Kataoka

Government Representatives Present

Mr. K. Toyama, State Minister of Finance, Ministry of Finance[2]

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

Mr. I. Miyashita, State Minister of Cabinet Office, Cabinet Office[2]

Mr. H. Tawa, Vice-Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. E. Maeda, Executive Director

Mr. S. Uchida, Executive Director (Assistant Governor)

Mr. Y. Ikeda, Executive Director

Mr. T. Kato, Director-General, Monetary Affairs Department

---

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 30 and 31, 2019, 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. K. Toyama and I. Miyashita were present on September 19.

[3] Messrs. M. Kanda and H. Tawa were present on September 18.

Mr. K. Iijima, Head of Policy Planning Division, Monetary Affairs Department

Mr. S. Shimizu, Director-General, Financial Markets Department

Mr. K. Kamiyama, Director-General, Research and Statistics Department

Mr. T. Kawamoto, Head of Economic Research Division, Research and Statistics Department

Mr. Y. Nakata, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. Y. Onozawa, Director-General, Secretariat of the Policy Board

Mr. Y. Yamashiro, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

Mr. T. Nagano, Senior Economist, Monetary Affairs Department

Mr. H. Inaba, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[4]

A. Market Operations in the Intermeeting Period

In accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both of which were decided at the previous meeting on July 29 and 30, 2019, the Bank had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[5] In this situation, 10-year JGB yields had been at around 0 percent, and the shape of the JGB yield curve had been consistent with the guideline for market operations.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments generally had been in negative territory. The uncollateralized overnight call rate had been in the range of around minus 0.02 to minus 0.07 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had declined somewhat due to an increase in demand from domestic and foreign investors, and recently were at around minus 0.15 percent.

The Nikkei 225 Stock Average had declined since the beginning of August, mainly against the background of heightening tension surrounding the U.S.-China trade friction and concern regarding a slowdown in the global economy; however, it rose thereafter, following the rises in U.S. and European stock prices mainly on the back of an anticipated resumption of U.S.-China trade negotiations, and was moving at around 22,000 yen recently. In the foreign exchange market, the yen had appreciated somewhat against the U.S. dollar since the beginning of August mainly due to a heightening of investors' risk aversion, but started to depreciate thereafter, and more recently was at almost the same level as at the time of the previous meeting. Meanwhile, the yen had appreciated marginally against the euro.

---

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

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

The Bank will purchase JGBs 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. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion yen.

C. Overseas Economic and Financial Developments

Overseas economies had been growing moderately on the whole, although slowdowns continued to be observed. With regard to the outlook, slowdowns were likely to continue for the time being; however, these economies were likely to grow moderately on the whole thereafter with the growth rates rising somewhat, partly backed by the materialization of the effects of their stimulus measures and a pick-up in the manufacturing sector, where relatively weak developments had been observed particularly in IT-related and capital goods.

The U.S. economy had been expanding moderately, although relatively weak developments had been observed in the manufacturing sector. Private consumption had been increasing, supported in part by a favorable employment and income situation and consumer sentiment. Exports remained more or less flat, mainly against the background of the intensified and prolonged U.S.-China trade friction. Business fixed investment had been relatively weak, mainly because the improving trend in business sentiment of manufacturing firms had weakened further. As for prices, both the year-on-year rate of change in the personal consumption expenditure (PCE) deflator for all items and that for all items excluding food and energy had been at around 1.5 percent. The economy was likely to maintain its moderate expansion, partly underpinned by accommodative financial conditions, despite being affected by the U.S.-China trade friction.

The European economy remained in the deceleration phase. Exports had turned to a decrease, and the pace of increase in business fixed investment continued to decelerate, mainly against the backdrop of a deterioration in business sentiment of manufacturing firms. Private consumption generally had been on an increasing trend, partly supported by a favorable employment and income situation and consumer sentiment. With regard to prices, both the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) for all items and that for all items excluding energy, food, alcohol, and tobacco had been at around 1 percent. The European economy was likely to gradually move out of its deceleration phase, mainly due to a pick-up in the manufacturing sector. Meanwhile, the growth rate of the U.K. economy for the April-June quarter of 2019 had dipped into negative territory due to such factors as the effects of automakers' planned temporary production shutdowns at their plants in the United Kingdom in view of the first scheduled date for a no-deal exit from the European Union (EU) around end-March; however, the rate for July returned to positive territory as such effects had dissipated.

With regard to emerging economies, the Chinese economy continued to see stable growth on the whole, but some weakness remained in the manufacturing sector. As for prices, the year-on-year rate of change in the consumer price index (CPI) had been in the range of 2.5-3.0 percent. The economy was likely to broadly follow a stable growth path as fiscal and monetary policies were phased in, although it was expected to be affected to some extent by the U.S.-China trade friction and the authorities' measures to push forward with deleveraging. In the NIEs and ASEAN countries, domestic demand had been resilient, mainly on the back of favorable consumer sentiment and the effects of those economies' stimulus measures, although exports remained more or less flat. Economic activity in Russia and Brazil had been recovering moderately, albeit with fluctuations, mainly on the back of stable inflation rates. In India, the economy had been decelerating, with relatively weak developments observed mainly in private consumption and business fixed investment.

With respect to overseas financial markets, stock prices in many economies had declined since the beginning of August, mainly against the background of heightening tension surrounding the U.S.-China trade friction and concern regarding a slowdown in the global economy. Thereafter, however, they started to rise toward early September, mainly on the back of an anticipated resumption of U.S.-China trade negotiations, and more recently were at almost the same levels as at the time of the previous meeting. U.S. and European long-term interest rates had declined somewhat during the intermeeting period, due in part to speculation about monetary easing in these economies amid fluctuations that reflected investors' risk sentiment. Meanwhile, currencies in some emerging economies had been depreciating somewhat significantly due to a heightening of political risks. In the commodity market, crude oil prices had risen reflecting the recent heightening of geopolitical risks in the Middle East.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had been on a moderate expanding trend, with a virtuous cycle from income to spending operating, although exports, production, and business sentiment had been affected by the slowdown in overseas economies. With regard to the outlook, it was likely to continue on that trend, despite being affected by the slowdown in overseas economies for the time being.

Exports had shown some weakness. While those to advanced economies continued on their increasing trend, those to emerging economies had shown some weakness. Although exports overall were projected to remain somewhat weak for the time being, as they were likely to be affected by the slowdown in overseas economies, they were expected to return to their moderate increasing trend thereafter with the growth rates of overseas economies rising.

Public investment had been more or less flat. The value of public works contracted as well as orders received for public construction -- both of which are leading indicators -- had been increasing recently. As for the outlook, public investment was likely to increase, mainly reflecting Olympic Games-related construction, the implementation of the supplementary budget for fiscal 2018, and the policy measures for national resilience.

Corporate profits had been at high levels on the whole, albeit with some weakness observed in part. Looking at the *Financial Statements Statistics of Corporations by Industry, Quarterly*, the ratio of current profits to sales for the April-June quarter of 2019 had declined compared with a while ago due to the effects of the slowdown in overseas economies, but it was still at a historically high level, supported by an increase in domestic demand. Although business sentiment of manufacturing firms had become notably cautious recently, that of nonmanufacturing firms stayed at a favorable level on the whole. In this situation, business fixed investment continued on an increasing trend. The aggregate supply of capital goods had been on a moderate uptrend, albeit with fluctuations. Private construction completed (nonresidential) continued on an uptrend from a relatively long-term perspective, although its pace of increase had temporarily decelerated. With regard to the outlook, business fixed investment was likely to increase moderately, mainly on the back of accommodative financial conditions.

As for the employment and income situation, supply-demand conditions in the labor market remained tight and employee income had been increasing. The active job openings-to-applicants ratio had been at a high level that exceeded the peak marked during the bubble period, although it had declined slightly recently due to the effects of the slowdown in overseas economies. The unemployment rate remained at a low level.

Private consumption had been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. The consumption activity index (CAI; real, travel balance adjusted) -- calculated by combining various sales and supply-side statistics -- had increased for the April-June quarter on a quarter-on-quarter basis and had decreased somewhat significantly for July relative to that quarter, pushed down by low temperatures and frequent rain accompanying an extended rainy season. Private consumption, although likely to be pushed down for some time due to the effects of the consumption tax hike scheduled for October 2019, was expected to continue on a moderate increasing trend, supported by the increase in employee income.

Housing investment had been more or less flat. The number of housing starts was more or less unchanged when fluctuations were smoothed out.

Although exports had shown some weakness, industrial production had been more or less flat, reflecting the increase in domestic demand. It was likely to gradually turn to a moderate increase with the growth rates of overseas economies rising, despite being pushed down for the time being due to the effects of the tax hike.

As for prices, the producer price index (PPI) relative to three months earlier -- adjusted for the effects of seasonal changes in electricity rates -- had been decreasing, reflecting developments in international commodity prices and foreign exchange rates. The year-on-year rate of change in the CPI for all items less fresh food was at around 0.5 percent, and that for all items less fresh food and energy also was at around 0.5 percent recently. With regard to the outlook, the year-on-year rate of change in the CPI for all items less fresh food was likely to increase gradually toward 2 percent, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising.

2. Financial environment

Financial conditions were highly accommodative.

Inflation expectations were more or less unchanged. Long-term real interest rates -- calculated as long-term interest rates minus medium- to long-term inflation expectations -- had been negative.

Firms' funding costs had been hovering at extremely low levels. With regard to credit supply, financial institutions' lending attitudes -- as perceived by firms -- had been highly accommodative. Issuing conditions for CP and corporate bonds had been favorable. Firms' credit demand had been increasing, such as for funds for business fixed investment and for those related to mergers and acquisitions. Against this backdrop, the year-on-year rate of increase in the amount outstanding of bank lending had been in the range of 2.0-2.5 percent. That in the amount outstanding of CP and corporate bonds had been at a relatively high level. Firms' financial positions had been favorable.

The year-on-year rate of increase in the monetary base had been at around 3 percent, and that in the money stock had been at around 2.5 percent.

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

A. Economic Developments

Regarding global financial markets, members shared the recognition that stock prices in many economies had declined since the beginning of August, mainly against the background of heightening tension surrounding the U.S.-China trade friction and concern regarding a slowdown in the global economy. They continued that thereafter, however, those prices started to rise, mainly on the back of an anticipated resumption of U.S.-China trade negotiations, and more recently were at almost the same levels as at the time of the previous meeting. Many members said that, although the markets had recently started to regain their stability somewhat, they could not view this optimistically as uncertainty regarding the outlook remained high, such as developments in the U.S.-China trade friction. Some members expressed the view that the situation where foreign exchange rates had been moving within a certain range reflected the fact that some countries maintained accommodative financial conditions and that Japan's economy was no longer in deflation. Meanwhile, one member pointed out that, while monetary accommodation had been pursued on a global basis, it was necessary to closely monitor developments in global financial markets that indicated excessively high expectations and the effects of changes in asset prices on the economy. On this basis, the member added that, in a low interest rate environment, the effects of interest rates on stock prices and foreign exchange rates might change, and that as a result, a decline in interest rates would not necessarily lead to a rise in stock prices and depreciation of the yen. Some members commented that the temporary rise in crude oil prices in response to the attacks on Saudi Arabian crude oil facilities required close monitoring in Japan, which relied heavily on Middle Eastern crude oil.

With respect to overseas economies, members shared the recognition that they had been growing moderately on the whole, although slowdowns continued to be observed. Many members expressed the recognition that relatively weak developments continued in the manufacturing sector worldwide, as evidenced by the Global Purchasing Managers' Index (PMI) for manufacturing remaining below 50, mainly against the background of the intensified and prolonged U.S.-China trade friction. However, a few members expressed the view that domestic demand in many economies remained firm, partly on the back of a favorable employment and income situation, and that the contrast between the manufacturing and nonmanufacturing sectors had become clear. Moreover, one member noted that some positive developments regarding the progress in adjustments in IT-related goods had been observed. As for the outlook for overseas economies, members shared the recognition that slowdowns were likely to continue for the time being; however, these economies were likely to grow moderately on the whole thereafter with the growth rates rising somewhat, partly backed by the materialization of the effects of their stimulus measures and a pick-up in the manufacturing sector, where relatively weak developments had been observed particularly in IT-related and capital goods. Nevertheless, they agreed that the slowdown in overseas economies continued and that clear signs were not confirmed at present that these economies would turn to a pick-up. Members also concurred that downside risks to overseas economies seemed to be increasing, including the effects of protectionist moves, uncertainties regarding emerging economies, negotiations on the United Kingdom's exit from the EU, and geopolitical risks in the Middle East. On this basis, some members added that there was a possibility that the pick-up in overseas economies would lag behind by longer than expected.

With regard to the current situation of overseas economies by region and their outlook, members concurred that the U.S. economy had been expanding moderately, although relatively weak developments had been observed in the manufacturing sector. Some members pointed out that business sentiment had turned to a decline, as seen, for example, in a fall to below 50 in the Institute for Supply Management (ISM) index for manufacturing, mainly due to the effects of the intensified and prolonged U.S.-China trade friction. Nevertheless, many members expressed the recognition that private consumption had been firm, supported in part by a favorable employment and income situation, and the economy maintained its resilience on the whole. As for the outlook, members shared the view that the economy was likely to maintain its moderate expansion, partly underpinned by accommodative financial conditions, despite being affected by the U.S.-China trade friction. Some members noted that it would be necessary to carefully monitor, for example, the effects of the Federal Reserve's lowering the federal funds rate to underpin the U.S. economy, and the risk of the intensified and prolonged U.S.-China trade friction pushing down the economic growth rate more than projected.

Members shared the recognition that the European economy remained in the deceleration phase. Some members pointed out that, although private consumption had been firm, production and exports continued to show relatively weak developments, particularly in Germany, mainly due to the tightening of gas emission regulations on automobiles and the effects of the slowdown in the Chinese economy. As for the outlook, members concurred that the European economy was likely to gradually move out of its deceleration phase, mainly due to a pick-up in the manufacturing sector. A few members expressed the view that there was a possibility that a recovery in the European economy would be delayed given the risk of the United Kingdom's no-deal exit from the EU, and uncertainty regarding the implementation of fiscal stimulus measures being discussed in Germany.

Members agreed that the Chinese economy continued to see stable growth on the whole, but some weakness remained in the manufacturing sector. Some members noted that while the effects of the authorities' stimulus measures had not been clearly confirmed yet, downward pressure on production -- due to the effects of the U.S.-China trade friction -- continued, and private consumption had been lackluster. As for the outlook, members shared the view that the economy was likely to broadly follow a stable growth path as fiscal and monetary policies were phased in, although it was expected to be affected to some extent by the U.S.-China trade friction and the authorities' measures to push forward with deleveraging. A few members expressed the recognition that, given that U.S.-China trade negotiations might take longer than expected and that there were significant uncertainties regarding the effects of the authorities' stimulus measures, recovery in the pace of economic growth in China might be later than projected.

Members shared the recognition that emerging economies maintained their recovery trend overall, although some had decelerated due to country-specific factors. They concurred that, in the NIEs and ASEAN countries, domestic demand had been resilient, mainly on the back of favorable consumer sentiment and the effects of those economies' stimulus measures, although exports remained more or less flat. As for the outlook, members agreed that the growth rates of emerging economies were likely to increase on the whole, partly because the country-specific factors that had been the cause of deceleration would generally dissipate, and the effects of emerging economies' stimulus measures and structural reforms would materialize. A few members noted that future developments in these economies -- including capital flows -- continued to warrant attention as disparities in the pace of growth of these economies had started to be observed, while world trade volume remained low and factors such as political risks had materialized in some economies.

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

With regard to economic activity, members agreed that the economy had been on a moderate expanding trend, with a virtuous cycle from income to spending operating, although exports, production, and business sentiment had been affected by the slowdown in overseas economies. Some members pointed to the possibility that the effects of the slowdown in overseas economies had also spread to the manufacturing sector's business fixed investment and its new job openings-to-applicants ratio. Nevertheless, many members expressed the view that domestic demand had been firm -- as evidenced by steady demand in strategic investment and in labor-saving investment with an eye toward future growth, particularly by nonmanufacturing firms -- and the basic mechanism for economic expansion, in which a virtuous cycle from income to spending operated, was maintained.

As for the outlook for the economy, members concurred that it was likely to continue on a moderate expanding trend, despite being affected by the slowdown in overseas economies for the time being. On a more specific note, they shared the recognition that domestic demand was expected to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending. Nevertheless, many members pointed out that, given that uncertainties regarding overseas economies seemed to be increasing, it was necessary to carefully examine the impact on Japan's economy of developments in those economies. On this basis, these members shared the recognition that it was important to reexamine economic and price developments in Japan at the next Monetary Policy Meeting, while taking into consideration the results of the September 2019 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) and information obtained from interviews with firms that would be reported at the October meeting of general managers of the Bank's branches. One member said that the member could not view the outlook for economic activity and prices optimistically because a pick-up in external demand could not be expected to take place for the time being, given that the recovery in overseas economies had been delayed, and also because, regarding domestic demand, the consumption tax hike scheduled for October was imminent in a situation where the effects of the slowdown in overseas economies had been exerted.

Regarding recent developments in exports, members shared the recognition that they had shown some weakness. Some members noted that real exports for July 2019 increased relative to the April-June quarter, but that this could be judged to be more or less flat in the long run, and thus the assessment was unchanged that exports had shown some weakness reflecting the slowdown in overseas economies. Members concurred that, although exports overall were projected to remain somewhat weak for the time being, as they were likely to be affected by the slowdown in overseas economies, they were expected to return to their moderate increasing trend thereafter with the growth rates of overseas economies rising. One member pointed out that, taking account of the delay in the recovery of overseas economies, there was a possibility that a pick-up in exports would also take time.

Members agreed that public investment had been more or less flat. They shared the recognition that it was likely to increase, mainly reflecting Olympic Games-related construction, the implementation of the budget for fiscal 2018, and the policy measures for national resilience. A few members said that public investment was expected to increase, given recent developments, including progress in construction relating to restoration and reconstruction from disasters, as well as an increase in planned expenditure for public works projects in applications for budget requests for fiscal 2020.

Members concurred that business fixed investment continued on an increasing trend. Many members expressed the recognition that positive momentum was maintained in leading indicators such as machinery orders and construction starts, and that investment demand had been steady, particularly in the nonmanufacturing sector. However, some members noted that deceleration had been observed in business fixed investment in parts of the manufacturing sector, with its business sentiment becoming cautious and corporate profits being pushed down, reflecting the effects of the slowdown in overseas economies. Regarding the outlook, members concurred that business fixed investment was likely to increase moderately, mainly on the back of accommodative financial conditions. One member said that, according to the results of the *Survey on Planned Capital Spending* released by the Development Bank of Japan, firms were expected to continue making the following business fixed investment in fiscal 2019: (1) in transportation, real estate, and other areas to enhance urban functions; (2) in stores and logistics to cope with labor shortage; and (3) in developing digital infrastructure. On this basis, a few members pointed out that it was necessary to thoroughly examine developments in business fixed investment, as maintaining its increasing trend amid significant uncertainties regarding overseas economies would be the key to sustaining the moderate expanding trend of Japan's economy. One of these members added that it also was necessary to pay attention to the effects of Olympic Games-related demand peaking out.

As for the employment and income situation, members shared the recognition that supply-demand conditions in the labor market remained tight, and that employee income had been increasing. A few members pointed out that labor market conditions remained tight, as evidenced, for example, by the unemployment rate remaining at a low level in the range of 2.0-2.5 percent and the active job openings-to-applicants ratio maintaining its high level. Some members noted that the new job openings-to-applicants ratio had leveled off, particularly in export-related industries, with the continued slowdown in overseas economies. These members added that it was necessary to carefully monitor whether such developments would spread to overall employment. Meanwhile, one member said that, while firms had been pushing forward with labor-saving investment, such as through the use of IT, they tended to retain excess workers in anticipation of a continuing labor shortage. The member then expressed the view that this had given rise to a situation where wage increases had not accelerated despite the low unemployment rate.

Members shared the recognition that private consumption had been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Many members pointed out that developments in indicators relating to private consumption -- which had marked somewhat weak figures for

July and then rebounded in August -- largely reflected fluctuations resulting from weather conditions and from an increase in demand prior to the October 2019 consumption tax hike. As for the outlook, members concurred that, although private consumption was likely to be pushed down for some time due to the effects of the tax hike, it was expected to continue on a moderate increasing trend, supported by the increase in employee income. Regarding the consumption tax hike, a few members expressed the recognition that its effects on private consumption were expected to be smaller than those of the previous hike in 2014, mainly because the government would implement various measures to smooth out demand prior to and after the hike. On this basis, some members noted that, as the effects of the tax hike might vary depending on, for example, consumer sentiment and the employment and income situation, it was necessary to continue to carefully monitor future developments in consumption. One of these members pointed out that, although there was a possibility that such measures as a point reward program would mitigate the impact of the tax hike to some extent, it was difficult to forecast developments in private consumption from October, with the effects of the slowdown in overseas economies being observed.

Members agreed that housing investment had been more or less flat. They also shared the recognition that the number of housing starts -- a leading indicator of housing investment -- was more or less unchanged when fluctuations were smoothed out.

Members shared the recognition that, although exports had shown some weakness, industrial production had been more or less flat, reflecting the increase in domestic demand. Regarding the outlook, they concurred that production was likely to gradually turn to a moderate increase with the growth rates of overseas economies rising, despite being pushed down for the time being due to the effects of the tax hike.

As for prices, members agreed that the year-on-year rate of change in the CPI for all items less fresh food was at around 0.5 percent, and that for all items less fresh food and energy remained within positive territory, also at around 0.5 percent, due partly to firms' cautious wage- and price-setting stance. On this basis, they shared the recognition that the year-on-year rate of change in the CPI had been positive but continued to show relatively weak developments compared with the economic expansion and tight labor market conditions. One member said that the year-on-year rate of change in the CPI stayed stable, remaining somewhat positive, while both a positive output gap and developments such as a rise in productivity existed at the same time. Many members expressed the recognition that, thus far, the basic mechanism was still operating, in which prices rose gradually with the economy continuing on an expanding trend and the output gap remaining positive. One of these members noted that, in the past, price rises in the eating and drinking services sector had resulted in losing customers, but recently, an increasing number of firms had been pointing out that the effects of price rises on the number of customers were small.

With regard to the outlook, most members shared the view that the year-on-year rate of change in the CPI was likely to increase gradually toward 2 percent, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising. However, a few members expressed the recognition that, given that downside risks to overseas economies seemed to be increasing, attention should be paid to the risk that the positive output gap would narrow, thereby pushing down inflation. One member said that, in forecasting price developments, it was of concern that various price indices, such as the PPI and the services producer price index, had been showing relatively weak developments and the positive output gap had been narrowing, against the backdrop of the continued slowdown in the global economy and the delay in its recovery from the baseline scenario. A different member expressed the opinion that a sign of momentum toward inflation becoming strong again was maintained thus far, but it was necessary to monitor more carefully than before whether this sign might fade away. Meanwhile, one member said that, given various factors that exerted downward pressure on prices, such as the effects of past declines in crude oil prices, it was not possible to confirm that the inflation rate would accelerate toward 2 percent, and there was a growing risk that the distance to the price stability target would become greater.

Members agreed that inflation expectations were more or less unchanged. A few members said that attention should be paid to the impact of such factors as the effects of past declines in crude oil prices on inflation expectations through the adaptive formation mechanism.

Based on the above discussions, most members shared the recognition that the momentum toward achieving the price stability target was being maintained as the economy had been on a moderate expanding trend. As a background to this, most members noted that (1) firms' stance was likely to gradually shift toward further raising wages and prices with the output gap remaining positive, and (2) medium- to long-term inflation expectations, which were more or less unchanged recently, were likely to rise gradually as further price rises came to be observed widely. Nevertheless, members shared the recognition that it was becoming necessary to pay closer attention to the possibility that the momentum toward achieving the price stability target would be lost, given that downside risks to overseas economies seemed to be increasing.

B. Financial Developments

Members concurred that financial conditions in Japan were highly accommodative. They shared the view that, under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, firms' funding costs had been hovering at extremely low levels, and financial institutions' lending attitudes, as perceived by both large and small firms, continued to be active.

III. Summary of Discussions on Monetary Policy for the Immediate Future

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

Members first discussed the Bank's basic stance on conducting monetary policy. Most members shared the recognition that downside risks to economic activity and prices warranted attention, and that, although it would take time to achieve the 2 percent price stability target, it was appropriate to persistently continue with the current powerful monetary easing as the momentum toward achieving 2 percent inflation was being maintained with the output gap remaining positive. Many members said that it was necessary to maintain the highly accommodative financial conditions under the current policy while taking account of developments in economic activity and prices as well as financial conditions, so that the positive output gap would be maintained for as long as possible. One member pointed out that, with the aim of achieving the price stability target, the Bank should persistently continue with the current monetary policy stance and thereby continuously encourage the virtuous cycle of the economy to take hold. Meanwhile, one member expressed the opinion that inflation momentum had already been lost, and thus it was necessary to take additional easing measures preemptively.

On this basis, members shared the view that, while slowdowns in overseas economies continued to be observed and their downside risks seemed to be increasing, it was becoming necessary to pay closer attention to the possibility that the momentum toward achieving the price stability target would be lost. Taking this into account, they concurred that it was necessary to reexamine economic and price developments at the next Monetary Policy Meeting, when the October 2019 *Outlook for Economic Activity and Prices* would be compiled. Members also shared the view that it was desirable to describe this recognition in the policy statement and make it clear to the public. A few members then pointed out that, in reexamining economic and price developments, it was important to make assessments while taking into consideration the results of the *Tankan* and the reports that would be made at the meeting of general managers of the Bank's branches, together with other indicators, and that the Bank should not have any preconceptions at this point regarding its assessments.

Members also deliberated over points to take into account in conducting monetary policy in the future. First, they presented their views on the fact that various arguments were being made among some market participants concerning additional easing measures. One member expressed the recognition that it was important for the Bank to communicate with emphasis that it had not reached an impasse on monetary policy measures in terms of short- or long-term interest rates, quantity, or quality, and that any kinds of measures were possible at all times. A different member noted that, given the lessons of unconventional monetary policy tools implemented so far at home and abroad, it was important to communicate widely the effectiveness of policy measures. One member said that, given the concern that the delay in the recovery in overseas economies would have a negative impact on Japan's economic activity and prices, it was necessary to consider desirable policy responses while paying attention to the side effects. A different member pointed out that there was some possibility that the momentum toward achieving the price stability target would be lost, and that the Bank should examine whether additional easing measures would be necessary. On this basis, the member noted that, while making it clear that the aim of taking additional measures was to produce easing effects, the Bank needed to consider all possible policy measures without preconception, including cutting the short-term policy interest rate, lowering the target level of 10-year JGB yields, expanding asset purchases, and accelerating the expansion of the monetary base. Meanwhile, one member added that the nominal yield curve had flattened over the past six months but the term structure of equilibrium interest rates and inflation expectations had not changed substantially. The member continued that, taking this situation into account, there was relatively large room for monetary easing among yields in the short- to medium-term zone, and lowering the short-term policy interest rate was appropriate to additional easing measures.

As for other points to take into account, while noting that financial institutions' financial soundness had been ensured and their intermediation function was also maintained, despite the prolonged low interest rate environment, some members expressed the recognition that it would be necessary to examine comprehensively the possibility that (1) financial institutions' profitability would decline further and (2) an increasing number of institutions would take excessive risks. In relation to this, a few members pointed out that structural problems, which would have an impact on financial institutions' business environment, and the effects of monetary easing should be discussed independently of each other. A different member noted that, with regard to the effects of monetary easing, including a negative interest rate policy, their impact on the overall economy should be considered first, rather than on banks' business conditions. In response to this, one member expressed the view that, due attention should be paid to the fact that once the financial system becomes destabilized, it would be difficult for the Bank to ensure price stability. The member also said that, if a decline in banks' profitability and an increase in risks of their assets -- both resulting from the continued low interest rate environment -- led to a downgrade of their ratings, there was a possibility that foreign currency liquidity risks and foreign currency funding costs would rise, and a negative impact would be exerted on the firms borrowing from them.

With respect to yield curve control, members shared the recognition that, since the previous meeting, 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 JGBs 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. With regard to the amount of JGBs to be purchased, it would conduct purchases in a flexible manner so that their amount outstanding would increase at an annual pace of about 80 trillion yen.

On this point, one member expressed the opinion that, since allowing the long-term yields to move to some extent was ambiguous as the guideline for market operations decided by the Policy Board, these yields could rise more than necessary, depending on the Bank's conduct of market operations, which could hamper the intended effects of the current yield curve control. A different member was of the opinion that it was desirable for the Bank to strengthen monetary easing by lowering the short-term policy interest rate.

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 for the intermeeting period. First, it would purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (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. Second, as for CP and corporate bonds, it would maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

With respect to the Bank's thinking behind its future conduct of monetary policy, most 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; (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; (3) as for policy rates, maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020, taking into account uncertainties regarding economic activity and prices including developments in overseas economies and the effects of the scheduled consumption tax hike; (4) examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target; and (5) in particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, were significant, not hesitate to take additional easing measures if there was a greater possibility that the momentum toward achieving the price stability target would be lost.

On this point, one member said that, as for policy rates, it was appropriate to introduce forward guidance that would further clarify its relationship with the price stability target. A different member was of the opinion that, in order to achieve the price stability target of 2 percent at the earliest possible time, further coordination of fiscal and monetary policy was important, and that it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

IV. Remarks by Government Representatives

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

(1) Applications for budget requests for fiscal 2020 were closed on August 31, 2019, and the government would proceed with the budget formulation toward the year-end. The total amount of budget requests and demands for the general account from ministries and agencies exceeded the initial budget for fiscal 2019. In order to maintain the sustainability of social security and public finance, it was necessary to work toward achieving both economic revitalization and fiscal consolidation, and thus the government would push forward with full-fledged expenditure reforms.

(2) The government was planning to raise the consumption tax rate from the current 8 percent to 10 percent in October. In view of the tax hike, it had prepared measures to minimize any possible economic fluctuations, such as a front-loaded increase and subsequent decline in demand. The government would continue to conduct a detailed analysis of developments in economic activity and do its utmost with regard to economic management.

(3) The government expected the Bank to continue to work toward achieving the price stability target under QQE with Yield Curve Control, taking account of developments in economic activity and prices as well as financial conditions.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was recovering at a moderate pace, while weakness continued to be seen, mainly in exports. The second preliminary estimate of the real GDP growth

rate for the April-June quarter of 2019 was 0.3 percent on a quarter-on-quarter basis and 1.3 percent on an annualized basis, registering positive growth for the third consecutive quarter. As for the outlook, weakness likely would remain for the time being, but the economy was expected to continue recovering at a moderate pace, supported partly by the effects of the government's policies, while the employment and income situation continued to improve. However, attention should be paid to the effects on the world economy of intensified tension over trade friction. In addition, the prospects for the Chinese economy, uncertainties regarding developments in overseas economies and their policies, and volatility in financial markets warranted attention.

(2) With the aim of completely overcoming deflation, the Abe Cabinet would steadily carry out the growth strategy and pursue economic and fiscal management in a flexible manner, in accordance with the Basic Policy on Economic and Fiscal Management and Reform 2019. The government would do its utmost with regard to economic and fiscal management, such as by (1) working on strengthening Japan's growth potential and boosting the potential growth rate, as well as (2) implementing temporary and special measures so that the recovery trend in the economy would not be affected by the consumption tax hike scheduled for October. With a view to creating a society in which everyone could play an active role and feel secure, the government would also establish a planning meeting on a social security system oriented to all generations, and push forward with reforms to create a social security system for all generations.

(3) The government expected the Bank to steadily pursue monetary easing toward achieving the price stability target, taking account of developments in economic activity and prices as well as financial conditions.

V. Votes

A. Vote on the Guideline for Market Operations

Based on the above discussions, to reflect the majority view of the members, the chairman formulated the following proposal 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 JGBs 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. With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion yen.

Votes for the proposal: Mr. H. Kuroda, Mr. M. Amamiya, Mr. M. Wakatabe, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, and Mr. H. Suzuki.
Votes against the proposal: Mr. Y. Harada and Mr. G. Kataoka.

Mr. Y. Harada dissented, considering that allowing the long-term yields to move upward and downward to some extent was too ambiguous as the guideline for market operations decided by the Policy Board. Mr. G. Kataoka dissented, considering that it was desirable to strengthen monetary easing by lowering the short-term policy interest rate.

B. Vote on the Guideline for Asset Purchases

To reflect the view of the members, the chairman formulated the following proposal to implement the guideline for asset purchases for the intermeeting period and put it to a vote: (1) to 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, and (2) to maintain the amounts outstanding of CP and corporate bonds at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

The Policy Board decided the proposal by a unanimous vote.

Votes for the proposal: Mr. H. Kuroda, Mr. M. Amamiya, Mr. M. Wakatabe, Mr. Y. Harada, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, Mr. H. Suzuki, and Mr. G. Kataoka.

Votes against the proposal: None.

VI. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. Mr. Y. Harada expressed the opinion that it was appropriate to introduce forward guidance for policy rates that would further clarify its relationship with the price stability target. Mr. G. Kataoka expressed the following opinions: (1) the possibility of the year-on-year rate of change in the CPI increasing toward 2 percent going forward was low at this point, and (2) further coordination of fiscal and monetary policy was important in order to achieve the price stability target of 2 percent at the earliest possible time, 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. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of July 29 and 30, 2019, for release on September 25.

Attachment
September 19, 2019
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 a 7-2 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 Japanese government bonds (JGBs) so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.[6] With regard to the amount of JGBs to be purchased, the Bank will conduct purchases in a flexible manner so that their amount outstanding will increase at an annual pace of about 80 trillion yen.

   (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) 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.

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

b) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

2. Japan's economy has been on a moderate expanding trend, with a virtuous cycle from income to spending operating, although exports, production, and business sentiment have been affected by the slowdown in overseas economies. Overseas economies have been growing moderately on the whole, although slowdowns have continued to be observed. In this situation, exports have shown some weakness. On the other hand, with corporate profits staying at high levels on the whole, business fixed investment has continued on an increasing trend. Private consumption has been increasing moderately, albeit with fluctuations, against the background of steady improvement in the employment and income situation. Housing investment and public investment have been more or less flat. Although exports have shown some weakness, industrial production also has been more or less flat, reflecting the increase in domestic demand, and labor market conditions have remained tight. Meanwhile, financial conditions are highly accommodative. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) is at around 0.5 percent. Inflation expectations have been more or less unchanged.

3. With regard to the outlook, Japan's economy is likely to continue on a moderate expanding trend, despite being affected by the slowdown in overseas economies for the time being. Domestic demand is expected to follow an uptrend, with a virtuous cycle from income to spending being maintained in both the corporate and household sectors, mainly against the background of highly accommodative financial conditions and the underpinnings through government spending, despite being affected by such factors as the scheduled consumption tax hike. Although exports are projected to show some weakness for the time being, they are expected to be on a moderate increasing trend on the back of overseas economies growing moderately on the whole. The year-on-year rate of change in the CPI is likely to increase gradually toward 2 percent, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising. [Note 2]

4. Risks to the outlook include the following: the U.S. macroeconomic policies and their impact on global financial markets; the consequences of protectionist moves and their effects; developments in emerging and commodity-exporting economies such as China, including the effects of the two aforementioned factors; developments in global adjustments in IT-related goods; negotiations on the United Kingdom's exit from the European Union (EU) and their effects; and geopolitical risks. Downside risks concerning overseas economies seem to be

increasing, and it also is necessary to pay close attention to their impact on firms' and households' sentiment in Japan.

5. The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. As for policy rates, the Bank intends to maintain the current extremely low levels of short- and long-term interest rates for an extended period of time, at least through around spring 2020, taking into account uncertainties regarding economic activity and prices including developments in overseas economies and the effects of the scheduled consumption tax hike. It will examine the risks considered most relevant to the conduct of monetary policy and make policy adjustments as appropriate, taking account of developments in economic activity and prices as well as financial conditions, with a view to maintaining the momentum toward achieving the price stability target. In particular, in a situation where downside risks to economic activity and prices, mainly regarding developments in overseas economies, are significant, the Bank will not hesitate to take additional easing measures if there is a greater possibility that the momentum toward achieving the price stability target will be lost. [Note 3]

6. Given that, recently, slowdowns in overseas economies have continued to be observed and their downside risks seem to be increasing, the Bank judges that it is becoming necessary to pay closer attention to the possibility that the momentum toward achieving the price stability target will be lost. Taking this situation into account, the Bank will reexamine economic and price developments at the next MPM, when it updates the outlook for economic activity and prices.

[Note 1] Voting for the action: Mr. H. Kuroda, Mr. M. Amamiya, Mr. M. Wakatabe, Mr. Y. Funo, Mr. M. Sakurai, Ms. T. Masai, and Mr. H. Suzuki. Voting against the action: Mr. Y. Harada and Mr. G. Kataoka. Mr. Y. Harada dissented, considering that allowing the long-term yields to move upward and downward to some extent was too ambiguous as the guideline for market operations decided by the Policy Board. Mr. G. Kataoka dissented, considering that it was desirable to strengthen monetary easing by lowering the short-term policy interest rate.

[Note 2] Mr. G. Kataoka dissented, considering that the possibility of the year-on-year rate of change in the CPI increasing toward 2 percent going forward was low at this point.

[Note 3] Mr. Y. Harada dissented, considering that, as for policy rates, it was appropriate to introduce forward guidance that would further clarify its relationship with the price stability target. In order to achieve the price stability target of 2 percent at the earliest possible time, Mr. G. Kataoka dissented, considering that further coordination of fiscal and monetary policy was important, and that it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.