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January 24, 2020

Bank of Japan

Minutes of the Monetary Policy Meeting

on December 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, December 18, 2019, from 2:00 p.m. to 4:15 p.m., and on Thursday, December 19, from 9:00 a.m. to 11:38 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. HARADA Yutaka
Mr. FUNO Yukitoshi
Mr. SAKURAI Makoto
Ms. MASAI Takako
Mr. SUZUKI Hitoshi
Mr. KATAOKA Goushi

Government Representatives Present

Mr. TOYAMA Kiyohiko, State Minister of Finance, Ministry of Finance[2]
Mr. KANDA Masato, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]
Mr. MIYASHITA Ichiro, State Minister of Cabinet Office, Cabinet Office[2]
Mr. TAWA Hiroshi, Vice-Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. MAEDA Eiji, Executive Director
Mr. UCHIDA Shinichi, Executive Director (Assistant Governor)
Mr. IKEDA Yuichi, Executive Director
Mr. KATO Takeshi, Director-General, Monetary Affairs Department

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on January 20 and 21, 2020, as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.
[2] Messrs. Toyama and Miyashita were present on December 19.
[3] Messrs. Kanda and Tawa were present on December 18.

Mr. FUJITA Kenji, Deputy Director-General, Monetary Affairs Department[4]

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

Mr. SHIMIZU Seiichi, Director-General, Financial Markets Department

Mr. KAMIYAMA Kazushige, Director-General, Research and Statistics Department

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

Mr. NAKATA Yoshinori, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. MATSUSHITA Ken, Director-General, Secretariat of the Policy Board

Mr. YAMASHIRO Yoshimichi, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

Mr. YANO Masayasu, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

Mr. NAGAE Shinichiro, Senior Economist, Monetary Affairs Department

Mr. INABA Hiroki, Senior Economist, Monetary Affairs Department

[4] Messrs. Fujita and Yano were present on December 18 from 2:45 p.m. to 4:15 p.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 October 30 and 31, 2019, the Bank had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[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.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments generally had been in negative territory. The uncollateralized overnight call rate had been in the range of around minus 0.01 to minus 0.07 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had risen somewhat temporarily, but generally remained at the same levels as at the time of the previous meeting throughout the intermeeting period.

The Nikkei 225 Stock Average had risen, following a rise in overseas stock prices, and recently was moving at around 24,000 yen. In the foreign exchange market, the yen had been depreciating somewhat against the U.S. dollar and the euro.

C. Overseas Economic and Financial Developments

Overseas economies had been growing moderately on the whole, albeit with slowdowns continuing to be observed. With regard to the outlook, although a pick-up in the growth pace of these economies was likely to take some time, their growth rates were projected to rise thereafter, partly backed by the materialization of the effects of

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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 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.

macroeconomic policies in each country as well as the progress in global adjustments in IT-related goods, and these economies were likely to grow moderately on the whole.

The U.S. economy had been expanding moderately, although some weakness had been seen in the manufacturing sector. Private consumption had been increasing, supported in part by a favorable employment and income situation and consumer sentiment. On the other hand, exports remained more or less flat, mainly due to the effects of the U.S.-China trade friction, and business fixed investment continued to show relatively weak developments, mainly against the backdrop of a deterioration in business sentiment of manufacturing firms. 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, although the effects of the U.S.-China trade friction were likely to remain.

The European economy remained in the deceleration phase. Exports continued to show relatively weak developments. Business fixed investment remained more or less flat, mainly against the background 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 with the progress in adjustments in the manufacturing sector. Meanwhile, the U.K. economy had weakened somewhat, due in part to the effects of movements ahead of the United Kingdom's possible exit from the European Union (EU).

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 4-5 percent. The economy was likely to broadly follow a stable growth path with the authorities implementing macroeconomic policies in an incremental manner, despite being affected to some extent by the trade friction with the United States and the authorities' measures to push forward with deleveraging. In the NIEs and the ASEAN countries, while exports had been relatively weak, especially to China, domestic demand had been resilient, mainly on the back of favorable consumer sentiment and the effects of those economies' macroeconomic policies. Economic activity in Russia and Brazil had been recovering moderately, mainly on the back of stable inflation rates. In India, the economy continued to decelerate, with relatively weak developments observed mainly in private consumption and business fixed investment.

With respect to overseas financial markets, U.S. and European stock prices and long-term interest rates had risen against the background of improvement in market sentiment that mainly reflected progress in the U.S.-China trade negotiations and firm U.S. economic indicators. Crude oil prices had risen, mainly against the background of an agreement reached on oil production cuts at the meeting of the Organization of the Petroleum Exporting Countries (OPEC).

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 shown some weakness, mainly affected by the slowdown in overseas economies and by natural disasters. With regard to the outlook, it was likely to continue on that trend as the impact of the slowdown in overseas economies on domestic demand was expected to be limited, although the economy was likely to continue to be affected by the slowdown for the time being.

Exports continued to show some weakness. While IT-related exports had been on an increasing trend, automobile-related ones had decreased clearly and exports of capital goods remained on a somewhat weakening trend. Although exports overall were projected to continue showing some weakness for the time being, given that it would take some time for the growth pace of overseas economies to pick up, they were expected to return to their moderate increasing trend thereafter with the growth rates of overseas economies rising.

Public investment had increased moderately. The value of public works contracted and orders received for public construction -- both of which are leading indicators -- had been on a moderate uptrend, albeit with fluctuations. As for the outlook, public investment was likely to continue increasing moderately, mainly for construction related to national resilience, the Olympic Games, and restoration and reconstruction following natural disasters.

Corporate profits had been at high levels on the whole, albeit with some weakness observed in part. Although business sentiment of manufacturing firms clearly had become cautious, that of nonmanufacturing firms stayed at a favorable level on the whole. Business fixed investment continued on an increasing trend. The pace of increase in the aggregate supply of capital goods had slowed somewhat, mainly affected by the slowdown in overseas economies. Private construction completed (nonresidential) continued on an uptrend from a relatively long-term perspective, although its pace of increase had decelerated temporarily. With regard to the outlook, business fixed investment was likely to decelerate somewhat for the time being, mainly for machinery investment by manufacturing firms, due to the effects of the slowdown in overseas economies. However, it was expected to increase moderately from a somewhat longer-term perspective, 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 increased. The diffusion index (DI) for employment conditions in the December 2019 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) showed that a perception of labor shortage remained quite strong, mainly in the nonmanufacturing sector. The unemployment rate remained at around the lowest level observed in the current economic expansion phase. The active job openings-to-applicants ratio stayed at a high level that exceeded the peak marked during the bubble period, although it had declined marginally since the end of 2018 due to the effects of the slowdown in overseas economies.

Private consumption had been increasing moderately, albeit with fluctuations due to such effects as of the October 2019 consumption tax hike, 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 decreased somewhat significantly for October, due to the decline in demand following the tax hike and the effects of natural disasters such as the 2019 Typhoon No. 19. In the outlook, private consumption was likely to continue to be pushed down by such effects as of the tax hike for the time being. However, the decline was likely to be small compared with the previous tax hike in 2014 and the uptrend in private consumption was expected to be maintained, underpinned by various measures implemented to support households and the improvement in the employment and income situation.

Housing investment had been more or less flat. Looking at the number of housing starts, (1) owned houses had seen a decrease in demand, although to a small extent compared with the previous tax hike, and (2) detached houses built for sale had been more or less flat, albeit with fluctuations that resulted from developments in large-scale properties, whereas (3) housing for rent continued on a downtrend, mainly against the background of waning demand for tax saving and asset management as well as cautious lending attitudes of financial institutions.

Industrial production had declined recently, due partly to the effects of natural disasters, with the continued slowdown in overseas economies. It was expected to be pushed down for the time being due to weakness in exports and the effects of the tax hike, but was likely to turn to a moderate increase thereafter, as the effects of the tax hike waned and exports gradually picked up, with a recovery in production following the natural disasters.

As for prices, the rate of decline in the producer price index (PPI) relative to three months earlier -- excluding the direct effects of the consumption tax hike and adjusted for the effects of seasonal changes in electricity rates -- had decelerated, 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 was in the range of 0.5-1.0 percent. With regard to the outlook, despite such effects as of the decline in crude oil prices for the time being, 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, both in a situation where the economy continued on an expanding trend.

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 in the range of 8.5-9.0 percent. Firms' financial positions had been favorable.

The year-on-year rate of increase in the monetary base had been in the range of 3.0-3.5 percent, and that in the money stock had been in the range of 2.5-3.0 percent.

II. Introduction of the Exchange-Traded Fund (ETF) Lending Facility

A. Staff Reports

The staff proposed that the Bank, in accordance with the decision made at the Monetary Policy Meeting in April 2019, introduce an ETF lending facility as one of the measures that would contribute to the continuation of powerful monetary easing, through which it temporarily could lend its ETF holdings to market participants, with the aim of improving the liquidity in ETF markets.

B. Discussion by the Policy Board and Vote

"Establishment of 'Special Rules for Lending of ETFs,'" which represented the aforementioned staff reports, was put to a vote. Members voted unanimously to approve the proposal. They confirmed that this should be made public after the meeting.

III. Amendment to the Fund-Provisioning Measure to Stimulate Bank Lending

A. Staff Reports

With respect to the Fund-Provisioning Measure to Stimulate Bank Lending, the staff proposed that the Bank amend the principal terms and conditions in order to allow counterparties to roll over their loans under certain conditions, with a view to contributing to the continuation of powerful monetary easing by continuously supporting financial institutions that had increased their lending through the facility thus far.

B. Discussion by the Policy Board and Vote

"Amendment to 'Principal Terms and Conditions for the Fund-Provisioning Measure to Stimulate Bank Lending Conducted through the Loan Support Program,'" which represented the aforementioned staff reports, was put to a vote. Members voted unanimously to approve the proposal. They confirmed that this should be made public after the meeting.

IV. 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 and long-term interest rates had risen in many countries and regions while the yen had been depreciating somewhat in the foreign exchange market, on the back of improvement in investors' risk sentiment that mainly reflected the progress in the U.S.-China trade negotiations and in the United Kingdom's exit from the EU, as well as firm U.S. economic indicators. A few members said that the foreign exchange market had been stable from a somewhat long-term perspective. One of these members noted that fluctuations in the dollar/yen exchange rate throughout 2019 likely were the smallest since the adoption of the floating exchange rate system. The member then expressed the view that there was a possibility that purchases of the U.S. dollar against the yen -- mainly resulting from imports, a higher ratio of which are denominated in U.S. dollars compared with exports, and from an increase in foreign direct investment including mergers and acquisitions -- had contained movements in exchange rates induced by speculative purchases of the yen. Meanwhile, one member pointed out that it was necessary to monitor closely the sustainability of the coexistence of stock prices hovering at high levels and relatively contained long-term interest rates.

Members shared the recognition that overseas economies had been growing moderately on the whole, although slowdowns continued to be observed. Many members expressed the recognition that signs of a pick-up in overseas economies had been observed;

for example, the Global Purchasing Managers' Index (PMI) for manufacturing had improved for four consecutive months, exceeding the 50 mark in November, and the order-inventory balance for IT-related goods had improved as well. At the same time, a few of these members pointed out that, although such signs of bottoming out had been observed in soft data, those of overseas economies heading toward a clear recovery had not been confirmed in hard data yet. As for the outlook for overseas economies, members shared the recognition that, although a pick-up in the growth pace was likely to take some time, their growth rates were projected to rise thereafter, partly backed by the materialization of the effects of macroeconomic policies in each country as well as the progress in global adjustments in IT-related goods, and these economies were expected to grow moderately on the whole. Many members said that it was a positive factor that progress had been made to some extent in the U.S.-China trade negotiations and in the United Kingdom's exit from the EU. However, some of these members noted that, regarding the U.S.-China trade negotiations, uncertainty remained as there were issues on which the two countries differed with respect to the partial agreement and those on which an agreement had not been reached yet, as was the case with industrial policies. On this basis, members shared the recognition that downside risks concerning overseas economies remained significant. One member expressed the view that, with regard to risks surrounding overseas economies, the risk profile had been changing to a situation where both downside risks and upside risks were starting to coexist.

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 some weakness had been seen in the manufacturing sector. A few members pointed out that, although the Institute for Supply Management (ISM) indices for both manufacturing and nonmanufacturing had been below market expectations, the U.S. economy continued to grow, mainly in private consumption, with consumer sentiment remaining favorable, while employment statistics indicated tight labor market conditions. A few different members said that Christmas sales appeared to have had a good start with the continued increase in employment. As for the outlook, members shared the view that the economy was likely to maintain its moderate expansion, partly underpinned by accommodative financial conditions, although the effects of the U.S.-China trade friction were likely to remain. A few members noted that the federal funds rate cuts by the Federal Reserve thus far also would contribute to economic expansion going forward.

Members shared the recognition that the European economy remained in the deceleration phase. Some members pointed out that signs of recovery had not been observed as production and exports continued to show relatively weak developments, particularly in Germany, with the PMI for manufacturing in the euro area remaining below 50, although the employment and income situation and consumer sentiment remained favorable with firmness seen in the French and Spanish economies, where nonmanufacturing played a large role. As for the outlook, members concurred that the European economy was likely to gradually move out of its deceleration phase with the progress in adjustments in the manufacturing sector. One member noted that close attention should be paid to future developments in Germany in particular, mainly because of its strong presence in the European economy, heavy reliance on foreign trade, and close economic ties with China.

Members agreed that the Chinese economy continued to see stable growth on the whole, but some weakness remained in the manufacturing sector. Nevertheless, some members pointed out that signs of bottoming out had been observed in the manufacturing sector, mainly as the PMI for manufacturing had exceeded 50 for the first time in seven months and industrial production had grown beyond market expectations. One member said that the progress in the U.S.-China trade negotiations had contributed to such developments. As for the outlook, members shared the view that the economy was likely to broadly follow a stable growth path with the authorities implementing macroeconomic policies in an incremental manner, despite being affected to some extent by the trade friction with the United States and the authorities' measures to push forward with deleveraging. Some members, while acknowledging the positive contribution of the progress in the U.S.-China trade negotiations, noted that recovery in the Chinese economy was likely to remain moderate.

Members shared the recognition that emerging economies as a whole maintained their recovery trend, although some had decelerated. They concurred that, in the NIEs and the 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 had been relatively weak, especially to China. One member said that a shift toward a phase of improvement in the cycle for IT-related goods had been confirmed statistically, as evidenced by the fact that the year-on-year rate of increase in real exports of IT-related goods had been recovering in South Korea and Taiwan. One member pointed out that, although developments in some countries warranted concern, including recent trends in their balance of payments, the overall impact was limited, owing partly to the introduction of economic stimulus measures in many countries. As for the outlook, members agreed that the growth rates of emerging economies were likely to increase on the whole, reflecting the materialization of the effects of macroeconomic policies in each country. One member noted that the sustainability of capital inflow from abroad, in addition to the developments in the global economy and the effects of economic stimulus measures, would be the key determinants for the recovery of emerging 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 shown some weakness, mainly affected by the slowdown in overseas economies and natural disasters. A few members noted that the number of somewhat weak indicators -- mainly those related to production and consumption -- had increased, affected by the slowdown in overseas economies, the consumption tax hike, and natural disasters. Nevertheless, many members pointed out that the impact of the slowdown in overseas economies had been limited thus far on the back of steady domestic demand. On this basis, these members expressed the recognition that the basic mechanism for economic expansion, in which a virtuous cycle from income to spending operated, was maintained. Many members pointed out that the results of the December 2019 *Tankan* supported such a view.

As for the outlook for the economy, members concurred that it was likely to continue on a moderate expanding trend as the impact of the slowdown in overseas economies on domestic demand was expected to be limited, although the economy was likely to continue to be affected by the slowdown 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 an expansion in government spending. Nevertheless, some members noted that attention should continue to be paid to such effects as of the slowdown in overseas economies and the consumption tax hike. One of these members said that, although uncertainties had dissipated somewhat in the short run, reflecting the partial agreement of the U.S.-China trade negotiations and the outcome of the general election in the United Kingdom, Japan's economy had been pushed down by the effects of the consumption tax hike and natural disasters. The member continued that, therefore, it remained difficult to be optimistic about the outlook for economic activity on the whole. One member commented that it was important to examine the prerequisites for a virtuous cycle from income to spending -- namely, whether overseas economies would improve, employee income would increase, and the propensity to consume would not decline due to the consumption tax hike. A few members expressed the view that signs of a pick-up having started to be seen in overseas economies and the new economic measures having been established by the government were positive factors that likely would support future economic expansion.

Regarding recent developments in exports, members shared the recognition that these continued to show some weakness. They shared the view that, although exports were projected to continue showing some weakness for the time being, given that it would take some time for the growth pace of overseas economies to pick up, they were expected to return to their moderate increasing trend thereafter with the growth rates of overseas economies rising. A few members said that, considering the risk that overseas economies could recover only to a small extent or slow further, the outlook for exports could not be viewed optimistically, and therefore it was necessary to continue to pay close attention to developments in overseas economies.

Members agreed that public investment had increased moderately. A few members said that it was becoming more evident that economic growth had been underpinned by domestic demand, including public investment, as suggested by increases in the amount of public construction completed and the value of public works contracted, which are the coincident and leading indicators of such investment, respectively. Members shared the recognition that public investment was likely to increase, mainly for construction related to national resilience, the Olympic Games, and restoration and reconstruction after natural disasters. A few members expressed the view that it was likely to continue increasing for the time being, taking into account economic measures recently established by the government.

Members concurred that business fixed investment continued on an increasing trend. Many members pointed out that firmness was seen in business fixed investment plans for fiscal 2019 in the December *Tankan*, which indicated that the impact of the slowdown in overseas economies had been limited thus far and that firms continued to engage in efforts such as to realize labor saving and proceed with research and development. Regarding the outlook, members agreed that business fixed investment was likely to decelerate somewhat for the time being, mainly for machinery investment by manufacturing firms, due to the effects of the slowdown in overseas economies; however, it was expected to increase moderately from a somewhat longer-term perspective, mainly on the back of accommodative financial conditions. Some members noted that it was a matter of concern that leading indicators such as machinery orders had been showing some weakness recently. One of these members said that how to understand in a consistent manner the relationship between the relatively weak developments in leading indicators and firm business fixed investment plans in the December *Tankan* was a topic for discussion. In response, a few members pointed to the possibility that machinery orders were not necessarily an accurate reflection of the trend in overall business fixed investment; namely, where firms had been increasing software investment and research and development investment in a stable manner with corporate profits maintaining their high levels.

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 increased. One member noted that there was concern as to whether labor market conditions had undergone any changes, given that the unemployment rate had risen somewhat and the active job openings-to-applicants ratio had declined, albeit marginally. In response, a few members, while acknowledging that the unemployment rate was an important indicator, pointed out that it could not be said that the rise had gone so far as to warrant concern, considering that the numbers of "employed persons" and "employees" had been increasing and many of the reasons for leaving jobs were related to their personal circumstances. Meanwhile, a few members noted that close attention should be paid to how developments in corporate profits, currently at high levels, would affect winter bonuses, taking into account that a decline in profits was expected mainly in the manufacturing sector.

Members shared the recognition that private consumption had been increasing moderately, albeit with fluctuations due to such effects as of the consumption tax hike, against the background of steady improvement in the employment and income situation. One member said that, although such indicators as automobile sales and sales at department stores showed relatively weak developments, due partly to the effects of natural disasters, with regard to the environment surrounding private consumption, the employment and income situation had been favorable and consumer sentiment had improved somewhat, and thus there was no need to assume at this point that there had been any change in steady private consumption. However, one member pointed out that, after the previous consumption tax hike in 2014, it had taken around three years for consumption and business conditions in retailing in the *Tankan* to pick up. On this basis, the member noted that the current weak developments could again be the start of stagnation in consumption. In response, a different member pointed out that the prolonged stagnation in consumption observed after the previous tax hike should be assessed by also taking into account that private consumption had been restrained due to shocks other than the tax hike, such as the so-called China shock. As for the outlook, members concurred that, although private consumption was likely to continue to be pushed down by such effects as of the tax hike for the time being, it was expected to remain on a moderate increasing trend thereafter, underpinned by various measures implemented to support households and the increase in employee income. A few members stated that, considering the possibility that the real income effect of the tax hike gradually would appear, it was necessary to scrutinize further developments in relevant data while closely examining them from a micro perspective.

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 -- remained more or less flat and that its fluctuations prior to and after the consumption tax hike had been contained compared with those of the previous tax hike.

Members shared the recognition that industrial production had declined recently, due partly to the effects of natural disasters, with the continued slowdown in overseas economies. Regarding the outlook, they concurred that, from a somewhat longer-term perspective, it was likely to gradually turn to a moderate increase, mainly with the growth rates of overseas economies rising, despite being pushed down for the time being due to weakness in exports and 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, in the range of 0.5-1.0 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. Some members added that indicators such as the DI of the share of price-increasing items minus the share of price-decreasing items, as well as the trimmed mean, had declined somewhat while business sentiment had become cautious and risks to economic activity at home and abroad remained high, although market conditions had improved. However, many members expressed the recognition that, thus far, the basic mechanism in which prices rose gradually with the economy continuing on an expanding trend and the output gap remaining positive continued to operate. One member noted that attention should be paid to the estimation errors of the output gap, and to the differences in recent developments in the output gap estimates released by the Bank and other organizations. In response, one member stated that the output gap is only an estimate and it was important instead to grasp its underlying trend. On this basis, the member expressed the view that Japan's current economic situation seemed to be in excess demand to some extent when comprehensively assessing it based on such factors as the estimates of the output gap, the DIs for employment conditions and production capacity in the December 2019 *Tankan*, and rises in wages and prices, albeit to a small extent. One member said that firms' moves to raise prices reflecting the consumption tax hike had been observed widely, such as for dining-out, and the output prices DI for consumption-related industries in the December *Tankan* remained positive. This member then expressed the recognition that, amid a situation of the strong upward pressure, such as of labor costs, firms continued to gradually shift their stance toward further raising prices. A different member noted that housing rent had been exerting downward pressure on Japan's CPI for a long time, but almost had emerged from negative territory for the first time in about 11 years, and that this could be starting to impact the long-term trend of prices.

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, despite such effects as of the decline in crude oil prices for the time being. One member noted that it was essential to maintain a moderately positive output gap until room for a rise in productivity narrowed and the inflation rate gradually rose, as inflation remained constrained, due partly to the current rise in productivity resulting from steady business fixed investment. Meanwhile, one member stated that the possibility of the year-on-year rate of change in the CPI increasing toward 2 percent going forward was low, making it difficult to say that the momentum toward achieving the price stability target was maintained.

Members agreed that inflation expectations were more or less unchanged. A few members pointed out that households' short-term inflation expectations had declined since October due to the consumption tax hike. One of these members expressed concern that continuation of this trend could exert negative effects on medium- to long-term inflation expectations as well. In response to this, one member noted that no significant change had been observed in said expectations thus far. This member added that firms continued to pass the rise in costs -- such as labor costs -- on to prices, and that, among households, developments such as significant deterioration in sentiment or an increase in preference for inexpensive goods and services had not been seen.

Based on the above discussions, most members shared the recognition that, as the economy had been on a moderate expanding trend, the momentum toward achieving the price stability target was maintained and there had been no further increase in the possibility that the momentum would be lost. 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, most members shared the recognition that it was necessary to keep paying close attention to the possibility that the momentum toward achieving the price stability target would be lost, given that downside risks to overseas economies remained significant. One of these members said that, while a positive output gap had been underpinning inflation, attention should be paid to the fact that the output gap remained narrow.

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. However, one member pointed out that QQE with Yield Curve Control could exert economic stimulus effects to a certain extent by allowing interest rate declines that reflected, for example, concerns about an economic downturn. The member then said that attention should be paid to whether such effects had become insufficient due to recent rises in interest rates.

V. 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 it was appropriate to persistently continue with the current powerful monetary easing as -- with the output gap remaining positive -- the momentum toward achieving 2 percent inflation was maintained and there had been no further increase in the possibility that such momentum would be lost. These members added that, at the same time, downside risks to economic activity and prices warranted attention and it would take time to achieve the 2 percent price stability target. 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. A different member commented that, under the monetary-fiscal policy mix, it was important to maintain the current monetary easing policy and support long-lasting economic growth. Meanwhile, one member expressed the opinion that the momentum toward achieving the price stability target already had been lost, and thus it was necessary to take additional easing measures.

On this basis, most members shared the view that, as it was necessary to continue to pay close attention to the possibility that the momentum toward achieving the price stability target would be lost, it was desirable to maintain a monetary policy stance that was tilted toward monetary accommodation. One member expressed the view that heightened uncertainties remained in the environment surrounding overseas economies, and it was necessary for the Bank to continue to make policy decisions without preconception. A different member noted that, given the significant degree of downside risks, the Bank should examine whether additional monetary easing would be necessary and how it should address the risk of an economic downturn, and that, in doing so, cooperation with the government in terms of fiscal and growth policies would become important. One member, referring to the fact that the Bank had conducted additional monetary easing half a year after the previous consumption tax hike took place in 2014, pointed to the possibility that it might become necessary to conduct additional monetary easing this time as well, depending on the underlying trend in consumption.

Members also deliberated over points to take into account in conducting monetary policy in the future. A few members expressed the recognition that, although the financial system had been stable on the whole, it was necessary to examine carefully the side effects of monetary easing, such as the impact of the prolonged low interest rate environment on the functioning of financial intermediation. One of these members said that it was a matter of concern that the pace of growth in lending by regional financial institutions had decelerated together with a decline in profits. On this point, one member expressed the view that, considering, for example, the continued increase in lending by financial institutions, Japan's financial conditions were not in a situation such as that assumed in the discussion on the reversal rate. Meanwhile, one member commented that households and firms in total had positive net financial worth, and that, if account maintenance fees were charged on their savings, (1) the negative impact of a decline in returns on their assets could be greater than the positive effects of a decrease in the costs on liabilities resulting from borrowing and (2) income disparity could widen since shareholders who had stocks with a relatively high rate of return would be at an advantage, depending on developments such as in stock prices. This member also pointed out that it was necessary to pay close attention to developments in Germany, where there had been progress in applying virtually negative interest rates not only to firms' deposits but also to individuals' large deposits, as well as raising account maintenance fees. In response, some members expressed the recognition that the effects of monetary easing should be assessed in terms of not only the effects on specific aspects, such as financial asset and liability positions, but also those on the economy as a whole, including improvement in employment and income situations. A few of these members noted that the side effects of monetary easing also should be examined from the viewpoint of the overall economy and the stability of the financial system as well as individual effects, such as on a particular sector or specific aspect of the sector.

As for other points to take into account, one member pointed out that, with discussions about reviewing central banks' policy frameworks having become active among, for example, overseas central banks, the Bank also should consistently consider its policy framework. The member continued, however, that the introduction of an inflation range target, such as that proposed by the International Monetary Fund (IMF), could weaken the Bank's commitment to achieving the price stability target. Meanwhile, a different member commented that it was important to sufficiently provide the public with up-to-date information on the output gap and medium- to long-term inflation expectations, both of which formed the basis for assessing the momentum toward achieving the price stability target.

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 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, expect short- and long-term interest rates to remain at their present or lower levels as long as it was necessary to pay close attention to the possibility that the momentum toward achieving the price stability target would be lost; (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 was of the opinion that the relationship among the price stability target, the momentum toward achieving it, and policy decisions was unclear, and the criterion for assessing the momentum was vague. The member continued 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 necessary, and that it was appropriate for the Bank to revise the forward guidance for the policy rates to make it a powerful one that specifically relates to the price stability target.

VI. Remarks by Government Representatives

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

(1) The government established the Comprehensive Economic Measures to Create a Future with Security and Growth on December 5, 2019. Based on these economic measures and the Basic Principles of Budget Formulation, adopting the concept of the so-called 15-month budget, the government had proceeded with formulation of the budget for fiscal 2020 and the supplementary budget for fiscal 2019. The supplementary budget for fiscal 2019 was decided by the Cabinet on December 13. The budget for fiscal 2020 was planned to be decided at the Cabinet meeting to be held on December 20, and the government was currently in the process of finalizing it.

(2) The ruling parties' outline for the fiscal 2020 tax reform was formulated on December 12, with a view to sustaining the growth path for the Japanese economy, and promoting open innovation -- which would lead to business innovation by firms -- as well as encouraging firms, by changing their business sentiment, to make decisive management decisions. Based on the outline, the government would make its utmost efforts to encourage firms to take positive initiatives.

(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 Comprehensive Economic Measures to Create a Future with Security and Growth was decided by the Cabinet on December 5, in order to ensure public safety and provide a sense of security -- by (1) accelerating the restoration and reconstruction of the areas affected by the successive natural disasters, including the 2019 Typhoon No. 19, and (2) more vigorously promoting disaster prevention and mitigation, as well as national

resilience. These economic measures also were decided in order to make sure to overcome the downside risks that had originated from overseas economies, thereby achieving sustainable economic growth led by private demand. According to these measures, fiscal spending amounted to about 13.2 trillion yen, and real GDP was expected to be directly raised by about 1.4 percent through fiscal 2021.

(2) According to the government's economic outlook for fiscal 2020, which took into account the aforementioned policies of economic and fiscal management, the Japanese economy was expected to recover, driven by the growth in domestic demand, while a virtuous economic cycle progressed with the ongoing improvement in the employment and income situation, supported partly by the effects of the government's policies brought about by, for example, smooth and steady implementation of the Comprehensive Economic Measures. On this basis, the government projected that the real growth rate for fiscal 2020 would be around 1.4 percent and CPI inflation would be around 0.8 percent.

(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.

VII. 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. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. FUNO Yukitoshi, Mr. SAKURAI Makoto, Ms. MASAI Takako, and Mr. SUZUKI Hitoshi.
Votes against the proposal: Mr. HARADA Yutaka and Mr. KATAOKA Goushi.

Mr. 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. 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. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. HARADA Yutaka, Mr. FUNO Yukitoshi, Mr. SAKURAI Makoto, Ms. MASAI Takako, Mr. SUZUKI Hitoshi, and Mr. KATAOKA Goushi.

Votes against the proposal: None.

VIII. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. Mr. Kataoka expressed the 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 necessary 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 make it a powerful one that specifically relates 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).

IX. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of October 30 and 31, 2019, for release on December 24.

X. Approval of the Change in Schedule for the Monetary Policy Meeting

The Policy Board unanimously approved changing the date of the Monetary Policy Meeting scheduled for July 21 and 22 to July 14 and 15, 2020. It was confirmed that the revised schedule would be released after the meeting.

Attachment
December 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.[7] 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.

[7] 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 shown some weakness, mainly affected by the slowdown in overseas economies and natural disasters. Overseas economies have been growing moderately on the whole, although slowdowns have continued to be observed. In this situation, exports have continued to show some weakness, and industrial production has declined recently, due partly to the effects of natural disasters. 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 due to such effects as of the consumption tax hike, against the background of steady improvement in the employment and income situation. Housing investment has been more or less flat, and public investment has increased moderately. Meanwhile, labor market conditions have remained tight. 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, as the impact of the slowdown in overseas economies on domestic demand is expected to be limited, although the economy is likely to continue to be affected by the slowdown 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 active government spending, despite being affected by such factors as the consumption tax hike. Although exports are projected to continue showing 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, despite such effects as of the decline in crude oil prices for the time being. [Note 2]

4. Risks to the outlook include the following: the consequences of protectionist moves and their effects; developments in emerging and commodity-exporting economies such as China; developments in global adjustments in IT-related goods; developments in the United

Kingdom's exit from the European Union (EU) and their effects; geopolitical risks; and developments in global financial markets under these circumstances. Downside risks concerning overseas economies seem to remain significant, 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 the policy rates, the Bank expects short- and long-term interest rates to remain at their present or lower levels as long as it is necessary to pay close attention to the possibility that the momentum toward achieving the price stability target will be lost. 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]

[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] 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 necessary, and that it was appropriate for the Bank to revise the forward guidance for the policy rates to make it a powerful one that specifically relates to the price stability target.