Not to be released until 8:50 a.m. Japan Standard Time on Friday, May 1, 2020.

May 1, 2020

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 16, 2020

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Monday, March 16, 2020, from 12:00 p.m. to 1:59 p.m.[1]

Policy Board Members Present

Mr. KURODA Haruhiko, Chairman, Governor of the Bank of Japan

Mr. AMAMIYA Masayoshi, Deputy Governor of the Bank of Japan

Mr. WAKATABE Masazumi, Deputy Governor of the Bank of Japan

Mr. HARADA Yutaka

Mr. FUNO Yukitoshi

Mr. SAKURAI Makoto

Ms. MASAI Takako

Mr. SUZUKI Hitoshi

Mr. KATAOKA Goushi

Government Representatives Present

Mr. KANDA Masato, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance

Mr. NISHIMURA Yasutoshi, Minister of State for Economic and Fiscal Policy, Cabinet Office

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

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

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on April 27, 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.

Mr. FUKUMOTO Tomoyuki, 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. FUJITA Kenji, Deputy Director-General, Monetary Affairs Department

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

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

Mr. NAGANO Teppei, Senior Economist, Monetary Affairs Department

Mr. NAGAE Shinichiro, Senior Economist, Monetary Affairs Department

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

I. Remarks on the Purpose of Calling a Monetary Policy Meeting and Approval of the Change in Date

The chairman first provided the following explanation for the purpose of calling a Monetary Policy Meeting for today.

(1) Amid the global spread of the novel coronavirus (COVID-19), uncertainties over the global economy had surged, and global financial and capital markets had been unstable. Financial markets in Japan had been volatile, as seen, for example, in significant fluctuations in stock prices, and there was concern over financial positions, mainly among small and medium-sized firms.

(2) In view of these circumstances, it was appropriate for the Bank to bring forward the Monetary Policy Meeting, which was originally scheduled to be held on March 18 and 19, and promptly discuss possible monetary policy measures. Therefore, in accordance with Article 9, paragraph 2 of the Bank of Japan Act Enforcement Order, the chairman had called a Monetary Policy Meeting for today.

The chairman then proposed that the March 18 and 19 meeting be brought forward, and that it proceed with the intention of concluding within a day. The proposal was unanimously approved by the Policy Board members.

II. Summary of Staff Reports on Economic and Financial Developments[2]

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 January 20 and 21, 2020, the Bank had been providing funds through purchases of Japanese government bonds (JGBs) and other measures.[3] 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. Meanwhile, in view of developments in

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

[3] 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.

financial markets, the Bank had appropriately implemented purchases of assets, including exchange-traded funds (ETFs) and CP, in accordance with the guideline for asset purchases decided at the previous meeting.

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 declined.

The Nikkei 225 Stock Average had dropped significantly amid increasing uncertainties over the future state of the economy due to the spread of COVID-19, and recently was moving at around 17,000 yen. Long-term interest rates had been moving at around 0 percent, but their fluctuations had been somewhat large in line with developments in U.S. and European long-term interest rates. The stock and government bond markets had been unstable, as seen, for example, in the increase in volatility. In the foreign exchange market, the yen had been appreciating against the U.S. dollar and the euro, albeit with large fluctuations.

C. Overseas Economic and Financial Developments

Overseas economies had recently shown clear signs of a slowdown due mainly to the impact of the outbreak of COVID-19. With regard to the outlook, although these signs were expected to remain for the time being, overseas economies were likely to return to a stable growth path thereafter, partly backed by the materialization of the effects of macroeconomic policies in each country, as the spread of the disease would recede. Nevertheless, there had been significant uncertainties over the size and the persistence of the impact of the spread of COVID-19 on the global economy, and if the disease were to spread even more widely or for a longer period, the impact on the economy would accordingly be significant.

While the number of newly confirmed COVID-19 cases in China decreased and appeared to have reached a plateau, the disease had been spreading outside China, as seen in a marked increase in the number of cases in Europe and the United States. Under these circumstances, the economic impact of the disease also had been evident initially in China, but was gradually spreading to other countries.

With regard to developments in overseas economies by region, the Chinese economy was under strong downward pressure in terms of both supply and demand. Given the strict movement restrictions imposed to prevent the spread of the disease, labor force recovery after the Lunar New Year holidays had been sluggish. The Purchasing Managers' Index (PMI) for February, for both manufacturing and nonmanufacturing, had declined significantly. However, high-frequency data had suggested that economic activity had recently been picking up gradually as the number of newly confirmed COVID-19 cases decreased and appeared to have reached a plateau.

The U.S. economy had continued to expand moderately, driven by private consumption, but the impact of COVID-19 had started to be observed. The weekly consumer confidence index had been declining, and the effects on industries related to travel and tourism had already been seen -- for example, in a decrease in the number of reservations for international flights and in a decline in revenues at Broadway theaters. Meanwhile, the Institute for Supply Management (ISM) index for manufacturing for February had also deteriorated.

Regarding the European economy, signs of a slowdown recently seemed to have become more evident amid continued adjustments in the manufacturing sector. The number of newly confirmed COVID-19 cases in the euro area had recently surged. Reservations for flights to and vacation rentals in Europe had decreased considerably. Downward pressure on private consumption seemed to have been increasing, reflecting strict restrictions in each country on people's movement and going outside.

With respect to overseas financial markets, U.S. and European stock prices and long-term interest rates had declined significantly, triggered by the outbreak of COVID-19 in Europe and the United States. Crude oil prices had fallen substantially, due to declining demand reflecting the outbreak of COVID-19 and to concern over a possible deterioration of supply and demand conditions reflecting disagreement over oil-production cuts. Volatility had increased significantly in a wide range of financial markets as risk aversion and a decline in market functioning had been observed. This seemed to reflect the following factors: there had been extremely significant uncertainties over the consequences and the effects of the outbreak of COVID-19; fiscal and monetary policies that had been introduced in rapid succession by each country had led to sudden repricing in financial markets; and trading and execution desks were understaffed as market participants had started to work split shifts. Neither an inflow of funds to government bonds or gold nor an appreciation of the yen had been seen recently, despite the deterioration of risk appetite. As a background to this, some market participants had pointed out that investors had become more eager to move their funds back to the United States and hoard cash immediately. Regarding conditions in U.S. dollar funding markets, U.S. dollar Libor-OIS spreads had been widening. The U.S. dollar funding premium in the dollar-yen swap markets had also been increasing, as there had been moves to secure ample on-hand liquidity in U.S. dollars. Given this situation, central banks in advanced economies had decided earlier today to enhance U.S. dollar funds-supplying operations through coordinated action.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economic activity had been weak recently due mainly to the impact of the outbreak of COVID-19, and was likely to remain so for the time being, mainly affected by the outbreak of the disease. Thereafter, the economy was expected to return to a moderate expanding trend, supported by a virtuous cycle from income to spending, with the impact of COVID-19 waning mainly owing to measures taken by each country.

Exports and industrial production had declined due to the slowdown in overseas economies since last year, as well as the decrease in external demand, mainly from China, and the effects on the global supply chain of stopping production, also mainly in China, reflecting the outbreak of COVID-19. Although China's economic activity had gradually been picking up, its capacity utilization in the manufacturing sector had not returned to the level seen prior to the outbreak, and supply chain disruptions caused by a shortage of parts were yet to be resolved. Inbound tourism consumption had also declined. The effects of expanding measures to prevent infection taken by each country and region were expected to materialize.

Private consumption had been weak recently due mainly to the impact of the outbreak of COVID-19. The consumption activity index (CAI; real, travel balance adjusted) -- calculated by combining various sales and supply-side statistics -- had shown a relatively significant decline in October 2019 on a month-on-month basis, mainly due to a decline in demand following the tax hike and to the effects of natural disasters such as the 2019 Typhoon No. 19. Through January 2020, however, the CAI had shown signs of a pick-up, albeit at a moderate pace due mainly to the effects of the unusually warm winter. Although some of the latest economic indicators had not yet been released, according to the available indicators and anecdotal information, consumption expenditure appeared to have dropped significantly since February, mainly in the services sector, due to self-restraints on holding events and going outside.

As for prices, the year-on-year rates of change in the consumer price index (CPI) both for all items less fresh food and for all items less fresh food and energy were in the range of 0.5-1.0 percent. With regard to the outlook, the year-on-year rate of change in the CPI was likely to be somewhat weak for the time being, partly due to the effects of the decline in crude oil prices. Thereafter, it was expected to increase gradually with the economy returning to a moderate expanding trend.

2. Financial environment

Financial conditions were accommodative on the whole, but they had become less so, as seen, for example, in the financial positions of some small and medium-sized firms.

Inflation expectations had been more or less unchanged from a somewhat longer-term perspective, but somewhat weak indicators had been observed recently.

Firms' financial positions had been favorable on the whole, although weakness had been seen in those of some firms, mainly small and medium-sized ones, reflecting such factors as the outbreak of COVID-19. Regarding firms' credit demand, some developments had been observed that suggested increased demand for operating funds caused by the outbreak of the disease. Meanwhile, financial institutions' lending attitudes continued to be accommodative. In the CP and corporate bond markets, issuance spreads remained tight, but there had been some moves to secure ample on-hand liquidity through an increase in CP issuance.

III. Summary of Staff Reports on Possible Monetary Policy Measures to Respond to Recent Developments

The chairman said that, given the current situation where financial markets had been unstable and there was concern over financial positions, mainly among small and medium-sized firms, it was appropriate for the Bank to discuss possible monetary policy measures. The chairman then requested that the staff explain the specifics of such measures.

The staff provided the following explanation.

(1) With a view to doing its utmost to ensure smooth corporate financing and maintaining stability in financial markets, thereby preventing firms' and households' sentiment from deteriorating, there were three possible measures that the Bank could take at this point. First, it could provide more ample funds for the time being, such as by actively purchasing JGBs and doing its utmost to provide U.S. dollar liquidity through U.S. dollar funds-supplying operations, which had been enhanced earlier today. It could also implement the following two measures to facilitate corporate financing and maintain stability in financial markets, and thereby enhance monetary easing.

(2) The specifics of <u>measures to facilitate corporate financing</u> could be as follows.

(a) *Introduction of the Special Funds-Supplying Operations to Facilitate Corporate Financing regarding the Novel Coronavirus (COVID-19)*

As a temporary measure until the end of September 2020, the Bank could provide loans against corporate debt as collateral at the interest rate of 0 percent with maturity up to one year. In addition, as an incentive for financial institutions, it could include twice as much as the amount outstanding of the loans in the Macro Add-on Balances in their current accounts held at the Bank.

(b) *Increase in purchases of CP and corporate bonds*

The Bank could increase the upper limit to purchase CP and corporate bonds by 1 trillion yen each -- 2 trillion yen in total -- and continue the additional purchases until the end of September 2020.

(3) As <u>measures to maintain stability in financial markets</u>, the Bank could increase its purchases of ETFs and Japan real estate investment trusts (J-REITs). Specifically, it could actively purchase these assets for the time being so that their amounts outstanding would increase at annual paces with upper limits doubled to about 12 trillion yen and about 180 billion yen, respectively. The principles in the existing guideline for such purchases should remain effective.

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

A. Economic Developments

Regarding global financial markets, members agreed that global financial and capital markets had been unstable, with growing uncertainties over the global economy due mainly to the impact of the outbreak of COVID-19. Some members said that it was notable that volatility had increased not only in the stock market but also in the bond market, and developments in global financial markets had been extremely nervous. One of these members pointed out that such developments indicated progress in market participants' flight to cash. A different member noted that, while market participants had started to work split shifts under, for example, stay-at-home orders, the understaffed situation had also affected financial markets. A few members pointed out that there was a risk that households' sentiment and firms' investment stance would rapidly become cautious if financial markets remained unstable. Meanwhile, a few members commented that crude oil prices had fallen sharply, due to declining demand and disagreement over oil-production cuts.

Members concurred that overseas economies had recently shown clear signs of a slowdown due mainly to the impact of the outbreak of COVID-19. One member said that, in the standard case, the outbreak of an infectious disease first brings about a significant economic downturn in the short term and, as the outbreak recedes, the economy eventually recovers. However, some members, including this member, pointed out that, while the disease seemed to be starting to recede in China, the impact could be prolonged and significant, considering the global spread of the disease. One member expected that the growth pace of the global economy would pick up in the second half of 2020, but also noted that the situation could not be viewed optimistically.

With regard to the current situation of overseas economies by region and their outlook, some members expressed the view that, although the impact of COVID-19 had been serious, the Chinese economy was heading toward a recovery, as seen, for example, in factories gradually resuming production with the deceleration in the pace of increase in the number of COVID-19 cases. As for the U.S. and European economies, a few members pointed out that there was a growing possibility that overall economic activity would be pushed down until there were prospects that the spread of COVID-19 would recede, as measures such as state of emergency declarations and border closures were successively implemented.

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

Members agreed that economic activity had been weak recently, under the circumstances where global financial and capital markets had been unstable, with growing uncertainties over the global economy due mainly to the impact of the outbreak of COVID-19. Some members pointed out that the outbreak had started to exert serious effects on Japan's economy mainly through decreases in exports and inbound tourism consumption, disruptions to supply chains, and a decline in private consumption caused by self-restraints on holding events and going outside. One of these members expressed the view that business fixed investment was also highly likely to be held off amid growing uncertainties regarding the outlook. A few members noted that employment maintained its high level, at least for the moment. One member expressed the view that if relatively firm employment could be maintained to a certain extent, the resilience of the economy to downward pressure would strengthen. In response to this, one member pointed out that employment was a lagging indicator, and therefore, the outlook for the economy could not be viewed optimistically only on the grounds that employment had been firm thus far. On this basis, some members commented that the real GDP growth rate for the January-March quarter of 2020 was highly likely to be negative on a quarter-on-quarter basis, as in the October-December quarter of 2019.

As for the outlook for economic activity, members concurred that it was likely to remain weak for the time being, mainly affected by the outbreak of COVID-19. One member said that the effects of the disease were likely to remain for the time being, partly because COVID-19 had been spreading globally with a time lag. On this basis, members shared the view that, although it could take time, the economy was expected to return to a moderate expanding trend, supported by a virtuous cycle from income to spending, with the impact of the outbreak of COVID-19 waning mainly owing to measures taken by each country. One member noted that the outbreak of the disease itself was likely to recede eventually, due in part to the effects of measures by the government of each country. Some members expressed the view that, when the outbreak receded, there likely would be a materialization of demand that had been restrained and of the effects of various economic measures.

However, members agreed that there had been significant uncertainties over the consequences of the outbreak of COVID-19 and over the size and the persistence of their impact on the economy. One member said that, as the outlook entailed considerably high uncertainties, such as the extent and duration of the downward pressure on the economy, a clear projection could not be made at this point. One member pointed out that, although different in nature from the shock of the global financial crisis in 2008 and that brought about by natural disasters at the time of the Great East Japan Earthquake, the impact of COVID-19 entailed high uncertainties; therefore, the impact could be significant and not just temporary. One member expressed the view that an economic downturn could be serious and prolonged based on such measures as for public health taken by each country, including movement restrictions. The member pointed out that it was not easy to make up for the lost services consumption. In addition, a few members said that it was uncertain whether the economy would recover strongly after COVID-19 receded, considering that economic activity had shown some weakness since before COVID-19 had exerted an impact, that is, due to the effects of the consumption tax hike and natural disasters. One member pointed to the possibility that firms' spending would continue not to increase easily for a certain period if firms paid renewed attention to the importance of on-hand liquidity and prioritized making deposits due to the shock of COVID-19.

Based on this discussion, members concurred that downside risks to economic activity and prices seemed to have been increasing due to the impact of the outbreak of COVID-19, and that it was also necessary to pay close attention to the impact of these risks on developments in global financial markets as well as on firms' and households' sentiment in Japan.

As for prices, members agreed that the year-on-year rate of change in the CPI for all items less fresh food was in the range of 0.5-1.0 percent, and the rate for all items less fresh food and energy also remained within the positive range of 0.5-1.0 percent, due partly to firms' cautious wage- and price-setting stance. They shared the view that, inflation expectations had been more or less unchanged from a somewhat longer-term perspective, but somewhat weak indicators had been observed recently.

Members concurred that the outlook for prices was likely to be somewhat weak for the time being, partly due to the effects of the decline in crude oil prices. On this basis, they shared the view that, thereafter, the year-on-year rate of increase in prices was expected to increase gradually with the economy returning to a moderate expanding trend. Nevertheless, some members expressed the view that, due to the impact of the outbreak of COVID-19, downside risks to economic activity and prices had been increasing, and there was a greater possibility that the momentum toward achieving the price stability target would be lost. One member noted that, although a positive output gap had supported price rises, there was an increasing possibility that it would narrow due to the impact of the outbreak of COVID-19.

B. Financial Developments

Members concurred that financial conditions in Japan were accommodative on the whole but had become less so, as seen partly in corporate financing such as the financial positions of small and medium-sized firms. Some members said that firms were facing a deterioration in business conditions due to the impact of the outbreak of COVID-19, and in particular, some industries had seen a sharp decrease in demand. On this basis, these members pointed out that financing was becoming an urgent issue for firms. One of these members noted that, if the current situation persisted, anxiety over financial positions might increase, particularly among small and medium-sized firms. In addition, a different member said that the deterioration in business conditions had been sudden regardless of the size of firm, and that the situation was serious. One member commented that, in this situation, it was essential to maintain the sufficient functioning of financial intermediation. One member added that banks were expected to use their expertise in examining the creditworthiness of firms to actively extend loans.

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

Regarding the direction of the Bank's monetary policy responses to recent developments, members concurred that it was appropriate for the Bank to enhance monetary easing, with a view to doing its utmost to ensure smooth corporate financing and maintaining stability in financial markets, thereby preventing firms' and households' sentiment from deteriorating, given the following facts that reflected the outbreak of COVID-19: financial markets had been unstable, as seen particularly in significant fluctuations in the stock market; and concern over financial positions had become apparent, mainly among small and medium-sized firms. One member expressed the view that, in this situation, where preventive measures had been taken against the spread of COVID-19, what was required of monetary policy was not to stimulate aggregate demand. A few members, noting that effects such as a decline in corporate profits and household income were likely to become significant, said that it was hoped that the government would implement measures such as compensation for business closures.

Based on the above, members discussed possible measures to enhance monetary easing. Some members said that the Bank should provide ample funds so that financial institutions could sufficiently fulfill the functioning of financial intermediation. One of these members commented that, while yen liquidity itself did not appear to be of concern, it was desirable for the Bank to provide further ample liquidity through active purchases of JGBs and other operations, in light of developments, including a rise in long-term interest rates. In addition, the member pointed out that it was also important for the Bank to do its utmost to provide U.S. dollar liquidity, and in that sense, today's decision by central banks in advanced economies to enhance U.S. dollar funds-supplying operations through coordinated action held great significance. Some members noted that it was important for the Bank to provide sufficient support for firms' financial positions with a view to doing its utmost to facilitate corporate financing. One member said that with a view to facilitating corporate financing, it was effective (1) to provide funds to financial institutions at favorable interest rates, thereby encouraging them to extend loans to firms; and (2) to increase purchases of CP and corporate bonds. A few members commented that the Bank should ensure stability in financial markets by restraining the expansion in risk premia through an increase in purchases of assets such as ETFs. Meanwhile, one member pointed out that, when taking such measures, it was important to address the issues flexibly and swiftly depending on the situation by utilizing the existing policy scheme and implementing temporary measures, while also taking into account the side effects on the functioning of financial intermediation.

Based on the above discussions, members agreed that the possible measures presented by the Bank's staff were appropriate as a policy package. One member said that the Bank should enhance monetary easing in terms of the following three perspectives: providing ample funds so that financial institutions could sufficiently fulfill the functioning of financial intermediation; doing its utmost to facilitate corporate financing; and ensuring stability in financial markets by restraining the expansion in risk premia through an increase in purchases of assets such as ETFs. This member continued that the possible measures presented by the Bank's staff were in line with these perspectives. Regarding measures to facilitate corporate financing, among other measures, one member said that the new special funds-supplying operations to facilitate corporate financing would encourage financial institutions to actively facilitate financing of their client firms despite their own severe business conditions, and would alleviate the anxiety of business managers whose firms were experiencing a deterioration in financial positions. In addition, this member expressed the recognition that, while acknowledging that there was no severe stress observed thus far in the CP and corporate bond markets, an increase in purchases of CP and corporate bonds would be effective in containing a possible deterioration in market conditions. As for measures to maintain stability in financial markets, one member noted that a drastic measure to double the annual paces in purchases of ETFs and J-REITs could contribute to stabilizing financial markets, and that the phrase "for the time being" would secure the flexibility for action depending on the situation.

One member expressed the recognition that it was important to continue striving to regain stability in financial markets as a whole by making the most of the advantage of the existing framework, which allowed for a certain degree of flexibility depending on market conditions. A different member commented that the Bank could take timely actions, including an unscheduled Monetary Policy Meeting, depending on economic and price developments. The member continued that it was also possible for the Bank to purchase JGBs with an annual pace of increase in their amount outstanding of up to about 80 trillion yen. Meanwhile, a few members pointed out that, under these circumstances, it was important to maintain a strong cooperative framework between the Bank and the government, as well as among major central banks, while closely sharing information. One of these members said that maintaining stability in financial and capital markets as well as ensuring smooth corporate financing were global issues. On this basis, members agreed to the stance that, for the time being, the Bank would closely monitor the impact of COVID-19 and would not hesitate to take additional easing measures if necessary, considering that there had been significant uncertainties over the consequences of the outbreak of

COVID-19 and over the size and the persistence of their impact on domestic and overseas economies, and that downside risks to economic activity and prices had been increasing.

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. First, it would purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank might increase or decrease the amount of purchases, depending on market conditions. For the time being, it would actively purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces with upper limits of about 12 trillion yen and about 180 billion yen, respectively. Second, as for CP and corporate bonds, the Bank would maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively. In addition, it would conduct additional purchases with the upper limit of their amounts outstanding of 1 trillion yen each until the end of September 2020.

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 Quantitative and Qualitative Monetary Easing (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; and (4) closely monitor the impact of COVID-19 for the time being and not hesitate to take additional easing measures if necessary.

On this point, one 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 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 Cabinet Office made the following remarks.

(1) Business sentiment had rapidly become severe due to the impact of COVID-19 and if the current situation persisted, there was concern that business sentiment would become severer. The government had been doing its utmost to prevent the spread of the infection and to ensure the disease would recede promptly. Meanwhile, it had immediately implemented the Second Novel Coronavirus Disease (COVID-19) Emergency Response Package totaling about 2 trillion yen, which undertook to facilitate corporate financing and secure employment as the priority issues for the time being.

(2) The government would work toward promptly obtaining approval from the Diet for the budget for fiscal 2020, which addressed risks including those arising from overseas economies, and in the meantime, while closely monitoring, for example, the impact of COVID-19 on the global economy, the government would not hesitate to conduct

necessary and sufficient economic and fiscal policies by implementing bold and unprecedented measures that would counteract the impact on the overall Japanese economy.

(3) The government recognized that the Bank had proposed the measures at this meeting to do its utmost to ensure smooth corporate financing and stability in financial markets, taking account of changes in global financial markets, in a situation where the impact of COVID-19 had been spreading widely. It expected the Bank to continue conducting appropriate monetary policy.

(4) In order for the Japanese economy to recover promptly from the impact of COVID-19, the government would send a strong message that it would cooperate closely with the Bank, while sharing a sense of crisis.

The representative from the Ministry of Finance, with the intent of contacting the Minister of Finance, requested that the chairman adjourn the meeting. The chairman approved the request. (The meeting adjourned at 1:35 p.m. and reconvened at 1:38 p.m.)

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

(1) The government had compiled the Second Novel Coronavirus Disease (COVID-19) Emergency Response Package last week in response to the recent COVID-19 outbreak. In order to carry this out immediately, it would take fiscal policy measures of about 430 billion yen. In an effort to do its utmost to facilitate corporate financing, the government had been implementing financial measures totaling 1.6 trillion yen, such as establishing a special loan program to provide de facto interest-free, unsecured financing support, in terms of quasi-governmental financing. In addition, it would swiftly implement the 26-trillion-yen Comprehensive Economic Measures that had been formulated at the end of 2019 in preparation for downside risks to the global economy. The government would do its utmost with regard to economic and fiscal management by taking necessary measures, while continuing to closely monitor economic developments at home and abroad, along with the epidemiological situation, as well as assessing changes in circumstances.

(2) Amid increasing concern over the outlook for economic activity resulting from the spread of COVID-19, it was important for the government and the Bank to cooperate closely and take measures against market instability. The government recognized that

the Bank would implement the proposed measures mainly with a view to ensuring stability in financial markets, and assessed them as swift and appropriate responses.

(3) The government expected the Bank to continue doing its utmost mainly to ensure stability in financial markets and working toward achieving the price stability target.

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 on the guideline for market operations and put it to a vote.

The Policy Board decided the proposal by a majority vote.

The Chairman's Policy Proposal on the Guideline for Market Operations:

The guideline for market operations for the intermeeting period will be as follows.

1. The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

2. The Bank will purchase 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 on the guideline for asset purchases and put it to a vote.

The Policy Board decided the proposal by a unanimous vote.

The Chairman's Policy Proposal on the Guideline for Asset Purchases:

The guideline for asset purchases other than JGB purchases will be as follows.

1. In principle, the Bank will purchase ETFs and J-REITs so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, it may increase or decrease the amount of purchases depending on market conditions. For the time being, the Bank will actively purchase these assets so that their amounts outstanding will increase at annual paces with upper limits of about 12 trillion yen and about 180 billion yen, respectively.

2. As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2.2 trillion yen and about 3.2 trillion yen, respectively. In addition, it will conduct additional purchases with the upper limit of 1 trillion yen for each until the end of September 2020.

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.

C. Vote on "Establishment of 'Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Corporate Financing regarding the Novel Coronavirus (COVID-19)'"

"Establishment of 'Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Corporate Financing regarding the Novel Coronavirus (COVID-19),'" which represented the aforementioned staff reports, was put to a vote. Members voted unanimously to approve the proposal.

VIII. Discussion on the Statement Entitled "Enhancement of Monetary Easing in Light of the Impact of the Outbreak of the Novel Coronavirus (COVID-19)"

On the basis of the above discussions, members discussed the statement "Enhancement of Monetary Easing in Light of the Impact of the Outbreak of the Novel Coronavirus (COVID-19)." Mr. Kataoka expressed 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 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.

Based on this discussion, the chairman formulated the statement "Enhancement of Monetary Easing in Light of the Impact of the Outbreak of the Novel Coronavirus (COVID-19)" and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment 1).

IX. Amendment to the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas

A. Staff Reports

With respect to the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas affected by the Great East Japan Earthquake and by the 2016 Kumamoto Earthquake, the staff proposed that the Bank amend the principal terms and conditions in order to integrate the two existing operations into one without a deadline and make necessary revisions to the lending scheme, with the aim of continuing in a more stable manner to support efforts toward restoration and reconstruction made by financial institutions in disaster areas.

B. Discussion by the Policy Board and Vote

"Amendment to 'Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas,'" which represented the aforementioned staff reports, was put to a vote. Members voted unanimously to approve the proposal. They confirmed that this should be released after the meeting.

X. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of January 20 and 21, 2020, for release on March 19.

Attachment 1

March 16, 2020

Bank of Japan

Enhancement of Monetary Easing in Light of the Impact of the Outbreak of the Novel Coronavirus (COVID-19)

1. Global financial and capital markets have been unstable, with growing uncertainties over the global economy due mainly to the impact of the outbreak of COVID-19. Under the circumstances, Japan's economic activity has been weak recently (see Attachment 2). In addition, financial conditions have become less accommodative, as seen partly in corporate financing such as the financial positions of small and medium-sized firms.

2. Given these developments, the Bank of Japan judged it appropriate to enhance monetary easing through <u>(1) the further ample supply of funds by conducting various operations including purchases of Japanese government bonds (JGBs) and the U.S. dollar funds-supplying operations, (2) measures to facilitate corporate financing including the introduction of a new operation, and (3) active purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs)</u>. The Bank will take these measures with a view to doing its utmost to ensure smooth corporate financing and maintaining stability in financial markets, thereby preventing firms' and households' sentiment from deteriorating.

3. To this end, at the Monetary Policy Meeting held today, the Policy Board of the Bank decided upon the following.

   (1) Further ample supply of funds

   The Bank will provide more ample yen funds for the time being by making use of active purchases of JGBs and other operations as well as measures in (2) and (3) below.

   As for U.S. dollar liquidity, coordinated with the Bank of Canada (BOC), the Bank of England (BOE), the European Central Bank (ECB), the Federal Reserve, and the Swiss National Bank (SNB), regarding the U.S. dollar funds-supplying operations, the Bank made public today to lower the loan rate by 0.25 percent and offer U.S. dollars weekly with an 84-day maturity, in addition to the 1-week maturity operations currently offered. Thereby, the Bank will do its utmost to provide U.S. dollar liquidity.[4]

(2) Measures to facilitate corporate financing

a) Introduction of the Special Funds-Supplying Operations to Facilitate Corporate Financing regarding the Novel Coronavirus (COVID-19)

The Bank decided, by a unanimous vote, to introduce a new operation to provide loans against corporate debt (of about 8 trillion yen as of end-February 2020) as collateral at the interest rate of 0 percent with maturity up to one year. Twice as much as the amount outstanding of the loans will be included in the Macro Add-on Balances in current accounts held by financial institutions at the Bank. This operation will be conducted until the end of September 2020.

b) Increase in purchases of CP and corporate bonds

The Bank decided, by a unanimous vote, to increase the upper limit to purchase CP and corporate bonds by 2 trillion yen in total and conduct purchases with the upper limit of their amounts outstanding of about 3.2 trillion yen and about 4.2 trillion yen, respectively.[5] The additional purchases will continue until the end of September 2020.

(3) Active purchases of ETFs and J-REITs

The Bank decided, by a unanimous vote, to actively purchase ETFs and J-REITs for the time being so that their amounts outstanding will increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively.[6]

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[4] "Coordinated Central Bank Action to Enhance the Provision of Global U.S. Dollar Liquidity" (March 15, 2020).

[5] With regard to CP and corporate bonds that are currently purchased other than those to be purchased additionally, their amounts outstanding will be maintained at about 2.2 trillion yen and about 3.2 trillion yen, respectively.

[6] As for the guideline for purchases of ETFs and J-REITs, in principle, "the Bank will purchase these assets so that their amounts outstanding will increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank may increase or decrease the amount of purchases depending on market conditions."

4. The Bank decided, by a 7-2 majority vote, to maintain the following guideline for market operations for the intermeeting period under yield curve control. [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 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.

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 consumer price index (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. The Bank will closely monitor the impact of COVID-19 for the time being and will not hesitate to take additional easing measures if necessary. [Note 2]

6. The Bank recognizes that monetary easing measures decided today will contribute to supporting economic and financial activities, coupled with various measures by the Japanese government as well as those by the government and the central bank of each country in response to the outbreak of COVID-19.

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

[Note 1] Voting for the action: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. FUNO Yukitoshi, Mr. SAKURAI Makoto, Ms. MASAI Takako, and Mr. SUZUKI Hitoshi. Voting against the action: 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.

[Note 2] In order to achieve the price stability target of 2 percent at the earliest possible time, Mr. 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.

Attachment 2

Economic Activity and Prices in Japan: Current Situation and Outlook

1. Japan's economic activity has been weak recently due mainly to the impact of the outbreak of the novel coronavirus (COVID-19). Specifically, exports and production have declined due to the slowdown in overseas economies since last year as well as the decrease in external demand mainly from China and the effects on the global supply chain of stopping production, also mainly in China. In addition, the number of inbound tourists has decreased and there have been self-restraints on holding domestic events and going outside. These developments have brought about deterioration in business conditions of related industries. Although financial conditions are accommodative on the whole, they have become less accommodative, as seen partly in corporate financing such as the financial positions of small and medium-sized firms. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) is in the range of 0.5-1.0 percent. Inflation expectations have been more or less unchanged from a somewhat longer-term perspective, but somewhat weak indicators have been observed recently.

2. With regard to the outlook, Japan's economic activity is likely to remain weak for the time being, mainly affected by the outbreak of COVID-19. Thereafter, it is expected to return to a moderate expanding trend, supported by a virtuous cycle from income to spending, with the impact of the outbreak of COVID-19 waning mainly owing to measures taken by each country. The year-on-year rate of change in the CPI is likely to be somewhat weak for the time being, partly due to the effects of the decline in crude oil prices. Thereafter, it is expected to increase gradually with the economy returning to a moderate expanding trend.

3. With regard to risks to the outlook, there have been significant uncertainties over the consequences of the outbreak of COVID-19 and over the size and the persistence of their impact on domestic and overseas economies. In addition, there remain other risks such as protectionist moves and their effects as well as geopolitical risks. Furthermore, the effects of recent developments in crude oil prices on economic activity and prices also warrant attention. Downside risks seem to have been increasing, and it also is necessary to pay close attention to their impact on developments in global financial markets as well as on firms' and households' sentiment in Japan.