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July 20, 2020

Bank of Japan

Minutes of the Monetary Policy Meeting

on June 15 and 16, 2020

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

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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, June 15, 2020, from 2:00 p.m. to 3:11 p.m., and on Tuesday, June 16, from 9:00 a.m. to 11:26 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. FUNO Yukitoshi

Mr. SAKURAI Makoto

Ms. MASAI Takako

Mr. SUZUKI Hitoshi

Mr. KATAOKA Goushi

Mr. ADACHI Seiji

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. TAWA Hiroshi, Vice-Minister for Policy Coordination, Cabinet Office

Reporting Staff

Mr. ETOH Kimihiro, Executive Director

Mr. UCHIDA Shinichi, Executive Director (Assistant Governor)

Mr. KATO Takeshi, Director-General, Monetary Affairs Department

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

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on July 14 and 15, 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] Mr. Toyama was present on June 16.

[3] Mr. Kanda was present on June 15.

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

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

Mr. FUKUMOTO Tomoyuki, Director-General, International Department

Secretariat of the Monetary Policy Meeting

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

Mr. HONDA Hisashi, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

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

Mr. NAGAE Shinichiro, Senior Economist, Monetary Affairs Department

Mr. INABA Hiroki, Senior Economist, Monetary Affairs Department

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

A. Market Operations in the Intermeeting Period

In accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both of which were decided at the previous meetings on April 27 and May 22, 2020, the Bank had been conducting purchases of Japanese government bonds (JGBs).[5] In this situation, 10-year JGB yields had been at around 0 percent, and the shape of the JGB yield curve had been consistent with the guideline for market operations.

The Bank had conducted purchases of CP and corporate bonds and the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) to support financing mainly of firms under the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19). In addition, the Bank had provided ample yen and foreign currency funds, mainly through purchases of JGBs and the conduct of the U.S. dollar funds-supplying operations, and had actively purchased exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs).

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments generally had been in negative territory. The uncollateralized overnight call rate had been in the range of around minus 0.02 to minus 0.07 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had risen somewhat, amid the increased issuance of such bills, and recently had been at around minus 0.1 percent.

The Nikkei 225 Stock Average had risen, mainly reflecting aggressive fiscal and monetary policies as well as moves to resume economic activity in each country and region. Looking at developments in long-term interest rates in detail, the rates had risen somewhat, partly against the background of the rise in overseas interest rates and the increase in the planned issuance of JGBs. However, they had been at around 0 percent since the April meeting, due mainly to the Bank's active JGB purchases. After the state of emergency was

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

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

The Bank will purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.

lifted, liquidity in the JGB market had shown some improvement but remained at a low level, as seen, for example, in the continued low trading volume. In the foreign exchange market, the yen had temporarily depreciated against the U.S. dollar, due mainly to stronger-than-expected U.S. economic indicators, but had been more or less flat since the April meeting. In addition, it had been depreciating against the euro, partly reflecting expectations that the euro area economy would be supported by fiscal and monetary policies there.

C. Overseas Economic and Financial Developments

Overseas economies had been depressed significantly, reflecting the impact of the COVID-19 pandemic. Since the April Monetary Policy Meeting, major economies, such as Europe and the United States, and emerging economies, following China, had eased preventive measures against the spread of COVID-19 and had started to resume their economic activities. However, the spread of COVID-19 had been subsiding only slowly in some major economies and moving rapidly in some emerging economies. In addition, the world trade volume had been depressed significantly. With regard to the outlook, the global economy was expected to remain depressed due to the impact of COVID-19. As the impact gradually waned, however, it was likely to pick up because the expected materialization of pent-up demand and a projected recovery in production from the decline brought about by COVID-19 were expected to exert upward pressure on the economy, and the effects of aggressive macroeconomic policies taken by each country and region were likely to materialize. That said, there had been extremely high uncertainties over the consequences of COVID-19 and the magnitude of their impact on the global economy.

With regard to developments in overseas economies by region, the U.S. economy had been depressed significantly due to the impact of COVID-19. Preventive measures against the spread, such as restrictions on going outside as well as orders to suspend business and production activities, had started to ease, albeit at different paces across the states. However, business sentiment continued to deteriorate, mainly reflecting the decrease in corporate profits, and business fixed investment had been depressed substantially. In addition, there had been a serious impact on employment and consumer sentiment had been extremely weak.

The European economy had been depressed significantly due to the impact of COVID-19. In the euro area, preventive measures against the spread had started to ease.

However, business sentiment continued to deteriorate, due mainly to the impact on corporate profits, and business fixed investment had declined substantially. Employment also had suffered a severe impact and consumer sentiment had worsened considerably.

The Chinese economy had been picking up. Production and exports had recovered to almost the same levels seen before the outbreak of COVID-19, partly because supply-side constraints had eased. Private consumption and fixed asset investment had been picking up from a large decline that reflected the impact of the spread.

Emerging economies other than China had been depressed significantly due to the impact of COVID-19. In the NIEs and the ASEAN countries, although preventive measures against the spread -- such as restrictions on going outside as well as orders to suspend business and production activities -- had started to ease, mainly in countries and regions where the spread of COVID-19 had begun to subside, their economies had been depressed significantly. Economic activity in India, Brazil, and Russia also had been depressed significantly due to the impact of the rapid spread.

With respect to overseas financial markets, along with aggressive macroeconomic policies conducted by each country and region, market sentiment had been improving, reflecting, for example, the easing of preventive measures against the spread of COVID-19 followed by a resumption of economic activity and expectations for the development of medicines and vaccines. In this situation, U.S. and European stock prices and long-term interest rates had risen, and the credit spreads had narrowed somewhat in these economies. Currencies in emerging economies had been appreciating on the whole, albeit with some weakness observed in part. Meanwhile, crude oil prices had turned to an increase, mainly due to the improvement in the supply and demand balance with market sentiment improving.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had been in an extremely severe situation due to the impact of COVID-19 at home and abroad. With regard to the outlook, it was likely to remain in a severe situation for the time being due to the impact of COVID-19, although economic activity was expected to resume gradually. Thereafter, as the impact of COVID-19 subsided, the economy was likely to improve, supported by accommodative financial conditions and the government's economic measures, as well as through the expected materialization of pent-up demand and a projected recovery in production from the decline brought about by COVID-19.

Exports and industrial production had declined substantially with overseas economies being depressed significantly. Looking at real exports by goods, automobile-related exports had declined substantially, mainly against the background of a rapid drop in overseas sales, particularly to the United States and Europe. Capital goods exports also continued to decrease clearly, reflecting some postponements in business fixed investment worldwide. On the other hand, IT-related exports had been firm as a trend, supported by steady exports of parts for data centers and products related to personal computers. As entry restrictions continued, there had been almost no visitors to Japan. As for the outlook, exports and production were expected to decline substantially for the time being, due mainly to the depression in overseas economies that reflected the impact of COVID-19. Thereafter, they were projected to stop declining and then head toward a pick-up as the impact waned on a global basis.

Private consumption had decreased significantly with the continuing impact of COVID-19, mainly in services such as eating and drinking as well as accommodations. Services consumption had declined substantially, particularly in selective expenditures including dining-out and travel, because the impact of COVID-19 had led to further self-restraint from going outside as well as temporary store closures and shorter operating hours. In relation to services demand, looking at people's movements based on mobile phone location data, they had dropped further toward mid-April, remained low through mid-May, and finally picked up somewhat toward the end of May, when the state of emergency was lifted. As for consumption of goods, selling at supermarkets had been above that for the same period last year owing to an expansion in so-called stay-at-home consumption, and selling of household electrical appliances had picked up since late May, led by personal computers against the background of the expansion in teleworking, televisions, and white goods. Although private consumption -- mainly in terms of services consumption -- was likely to remain at a low level for the time being, it was projected to pick up moderately as business activities resumed incrementally, supported partly by various income support measures.

Corporate profits had registered a clear decline for the January-March quarter and seemed to have dropped further since April. In this situation, the deceleration in the pace of increase in business fixed investment had become evident, mainly due to some postponements in nonurgent investment. Regarding the outlook, the declining trend in business fixed investment was likely to become evident in industries such as (1) automobiles and general machinery, which were affected significantly by a decline in demand, and (2) eating and drinking services, accommodations, and services for individuals, in which deterioration in financial positions tended to lead directly to liquidity constraints. That said, many of the medium- to long-term projects, such as software and research and development investments as well as construction investment, were expected to continue, with accommodative financial conditions being maintained on the back of responses taken by the government and the Bank.

With the continuing impact of COVID-19, the employment and income situation had shown some weakness. The year-on-year rate of change in the *Labour Force Survey*-based number of employees for April had registered minus 0.6 percent, turning negative for the first time since December 2012, because non-regular employees including part-time workers had declined clearly due to the impact of COVID-19. That in nominal wages for April had marked about minus 2 percent due to a further drop in non-scheduled cash earnings and a reduction in hours worked of part-time workers. Employee income was highly likely to be on a declining trend, affected by an economic downturn and a fall in corporate profits, both reflecting the impact of COVID-19.

As for prices, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) and that in the CPI (all items less fresh food and energy) were both at around 0 percent. With regard to the outlook, the year-on-year rate of change in the CPI was likely to be negative for the time being, mainly affected by COVID-19 and the decline in crude oil prices. Thereafter, with the economy improving, the rate of change was expected to turn positive and then increase gradually.

2. Financial environment

Financial conditions had been accommodative on the whole but less so in terms of corporate financing, as seen in deterioration in firms' financial positions.

As for inflation expectations, relatively weak indicators had been observed.

Firms' financial positions had worsened, mainly against the background of a decline in sales that reflected the impact of COVID-19. However, financial conditions for external funds remained accommodative on the back of measures taken by the Bank and the government as well as efforts made by financial institutions. Firms' funding costs had been hovering at low levels while market funding rates had turned to a decline after rising, mainly for CP issuance rates. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuing conditions for CP and corporate bonds had been favorable on the whole, with concern about deterioration in supply-demand conditions in those markets diminishing. Regarding firms' credit demand, there had been an increase in demand for funds that was mainly brought about by a decline in sales and the need to secure funds, both of which were due to the impact of COVID-19. Looking at developments in corporate financing, the year-on-year rate of increase in the amount outstanding of bank lending had been at around 5 percent, and that in the amount outstanding of CP and corporate bonds had been at a relatively high level that exceeded 10 percent.

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

A. Economic Developments

Members agreed that the tension in global financial markets had abated due to aggressive fiscal and monetary policies taken by each country and region as well as to some moves toward resuming economic activity, such as in advanced economies. However, they shared the view that, amid a situation of high uncertainty regarding domestic and overseas economies, the markets continued to be nervous, as evidenced, for example, by volatility in the stock market remaining at a high level. A few members pointed out that global financial markets were focusing on the downside tail risk of a significant plunge in stock prices, as the Cboe SKEW index -- which captures the skew of U.S. stock market participants' recognition of risks -- had been at a high level. These members then noted that the markets had actually exhibited unstable developments, such as a plunge of more than 1,800 U.S. dollars in the Dow Jones Industrial Average in June. One member expressed the view that, due to expectations for the future, prices in financial markets had been high compared with the current severe situation of the real economy. The member then noted that it was necessary to closely monitor future developments in the markets to see whether there would be a correction in asset prices. A different member expressed the view that, although crude oil prices had dropped rapidly toward the end of April and then gradually had risen, due mainly to moves among oil-producing economies toward reducing their production levels, they were expected to remain sluggish for a long period, since a full-fledged recovery in crude oil demand could not be expected for the time being.

Members concurred that overseas economies had been depressed significantly, reflecting the impact of the COVID-19 pandemic. Many members expressed the recognition that it was still unclear when the spread of COVID-19 would subside on a global basis: there had been some moves to resume economic activity in China and advanced economies with the spread peaking out, whereas the rapid spread was continuing in emerging economies in particular. In terms of the outlook, members shared the recognition that overseas economies were expected to remain depressed due to the impact of COVID-19, but as the impact gradually waned, these economies were likely to pick up because the expected materialization of pent-up demand and a projected recovery in production from the decline brought about by COVID-19 were expected to exert upward pressure on them, and the effects of aggressive macroeconomic policies taken by each country and region were likely to materialize. A few members pointed out that countries where COVID-19 had begun to subside had resumed their economic activities and were showing positive developments. These members continued that it seemed inevitable, however, that the impact of COVID-19 on the global economy would become prolonged without effective vaccines and medicines.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had been depressed significantly due to the impact of COVID-19. Some members pointed out that economic indicators for May had rebounded by more than expected due to support by fiscal and monetary policies as well as to a gradual resumption of economic activity, but the unemployment rate was still at a historically high level. A few members expressed concern over the growing uncertainty regarding not only the consequences of COVID-19, but also the social situation, as seen in the emergence of demonstrations. One member noted that, based on U.S. high-frequency data, people's movements were recovering but the recovery in such economic activity as consumption and employment was weak.

Members shared the recognition that the European economy had been depressed significantly due to the impact of COVID-19. Some members expressed the view that, although economic activity had started to resume gradually under aggressive fiscal and monetary policies, the pace of recovery varied by country, mainly depending on the evolving situation regarding COVID-19. One of these members added that, while Germany, with spare fiscal capacity, was likely to see an early recovery, it was expected that recovery would be delayed in southern Europe, where the weight of the tourism industry was large.

Members concurred that the Chinese economy had been picking up. Many members expressed the recognition that, with the spread of COVID-19 subsiding in the country, production and exports had begun to recover to levels seen before its outbreak. Nevertheless, many members expressed the view that, if the recovery of the global economy was delayed due to the impact of COVID-19, there was a possibility that world trade volume would be persistently weak, which could lead to a sluggishness in exports from China. Some members pointed out that the recent deterioration in U.S.-China relations could also exert downward pressure on the Chinese economy.

Members shared the recognition that emerging economies had been depressed significantly due to the impact of COVID-19. Many members expressed the recognition that COVID-19 had been spreading rapidly in such countries as India, Brazil, and Russia, and thus the impact on their economies had become increasingly severe.

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 shared the recognition that the economy had been in an extremely severe situation due to the impact of COVID-19 at home and abroad. Many members pointed out that exports and production had declined substantially against the background of the global economic depression, and consumption-related indicators for April had marked record declines, primarily due to self-restraint from going outside following the declaration of a state of emergency. These members continued that such data also confirmed the materialization of a situation that had been of concern at the April meeting. In addition, some members expressed the recognition that the employment and income situation had shown some weakness, as evidenced by, for example, data for April showing a clear decline in the number of employed persons, particularly of non-regular employees, and an increase in persons not in the labor force because of withdrawal from job-seeking activity. However, some members were of the view that signs of bottoming out had been observed most recently; for example, Japan had been successful in keeping the number of COVID-19 cases at a level below that in other countries, and in May, the state of emergency was lifted and sentiment indicators started to improve. Meanwhile, one member expressed concern that it was difficult to grasp the actual state of the economy because the accuracy of statistical data had declined, mainly reflecting a decrease in response rates due to the impact of COVID-19.

As for the outlook for economic activity, members concurred that Japan's economy was likely to remain in a severe situation for the time being due to the impact of COVID-19 at home and abroad, although economic activity was expected to resume gradually. They then shared the view that, as the impact of COVID-19 subsided, the economy was likely to improve, supported by accommodative financial conditions and the government's economic measures, as well as through the expected materialization of pent-up demand and a projected recovery in production from the decline brought about by COVID-19. One of these members expressed the recognition that there had been no significant change to the baseline scenario presented in the April 2020 *Outlook for Economic Activity and Prices*, in which, as the impact of COVID-19 waned, the growth pace of domestic and overseas economies was likely to increase from the second half of 2020. On this basis, some members expressed the view that it was necessary to pay attention to the second-round effects of COVID-19, including, from a somewhat long-term perspective, how households' and firms' mindset and behavior would change with a resumption of economic activity. One of these members pointed out that, since the current situation had arisen abruptly and unexpectedly, there was a possibility that a positive change would occur, but it was necessary to be vigilant against the risk that downward pressure on the economy would be exerted. A different member said that the pace of economic recovery would likely be slow, and that this was because aggregate demand was highly likely to be pushed down by deterioration in the labor market, and the utilization rate of conventional types of services could decline given a new lifestyle that took into consideration the risk of COVID-19.

As for prices, members agreed that the year-on-year rate of change in the CPI (all items less fresh food) and that in the CPI (all items less fresh food and energy) were both at around 0 percent, mainly affected by the decline in crude oil prices, and as for inflation expectations, relatively weak indicators had been observed. However, a few members pointed out that deflation-oriented price-setting behavior by firms, which competed for demand by lowering prices in the area of daily goods and services, had not spread at this point, as evidenced by firmness in daily and weekly CPI data covering, for example, prices at supermarkets as well as in measures of underlying inflation such as the mode.

With regard to the outlook for prices, members shared the view that the year-on-year rate of change in the CPI was likely to be negative for the time being, mainly affected by COVID-19 and the decline in crude oil prices, but thereafter, with the economy improving, the rate of change was expected to turn positive and then increase gradually. On this basis, one member pointed out that, with regard to price developments from a somewhat long-term perspective, it was unlikely at present that the inflation rate would approach 2 percent with momentum in the foreseeable future, as rapid recovery in demand was hardly expected. A different member said that the employment and income situation, which had supported the virtuous cycle that led to price rises, had shown some weakness, and there was concern that the adaptive formation of inflation expectations might be affected if the CPI remained low for a prolonged period.

As for risks to economic activity and prices, members agreed that there had been extremely high uncertainties over the consequences of COVID-19 and the magnitude of their impact on domestic and overseas economies. In addition, they shared the recognition that it was necessary to pay close attention to whether, while the impact of COVID-19 remained, firms' and households' medium- to long-term growth expectations would not decline substantially and the smooth functioning of financial intermediation would be ensured with financial system stability being maintained. Many members expressed the recognition that economic activity could be significantly constrained again if a second wave of COVID-19 occurred. Some members pointed to the possibility that growth expectations would decline and demand would be sluggish for a protracted period if firms and households continued to take defensive action, due mainly to concern about recurrence of the spread of COVID-19. One member noted that a delay in economic recovery brings about deterioration in firms' financial conditions and volatility in financial and capital markets, and in turn, such a delay entails a risk of concern over financial system stability. This member continued that, thus, it was necessary to pay due attention to future economic developments. As for prices, a few members expressed the view that there was significant uncertainty over firms' price-setting behavior with COVID-19 exerting effects on both demand and supply. A few members said that, although there had not been a surge in bankruptcies of firms to this point, COVID-19 had affected a wide range of firms and sole proprietors regardless of the category of industry and firm size. These members continued that it was necessary to be vigilant because, if the number of bankruptcies of firms as well as suspension and discontinuation of businesses increased, there was a risk that the economy might fall into deflation again through adjustments in labor and capital stock.

B. Financial Developments

Members concurred that financial conditions in Japan in terms of corporate financing had been less accommodative, as seen in deterioration in firms' financial positions, mainly against the background of a decline in sales. However, they shared the view that, on the back of measures taken by the Bank and the government as well as financial institutions' active efforts, financing conditions for external funds remained accommodative, as seen, for example, in the significant increase in bank lending and the narrowing of issuance spreads on CP and corporate bonds, which had widened temporarily.

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

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

Members first exchanged views on the Bank's measures that had been introduced and strengthened in response to the impact of COVID-19 since March. They shared the recognition that the three monetary easing measures -- namely, (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits, and (3) active purchases of assets such as ETFs -- had been exerting their intended effects. Some members noted that, although financing mainly of firms was still under stress, firms had been able to secure necessary funds at low interest rates as the funding environment remained accommodative in terms of both indirect and direct financing. In addition, some members expressed the view that developments in financial markets remained nervous in part, as evidenced, for example, by the fact that the volatility in the stock market remained somewhat high, but financial markets as a whole had begun to regain stability.

Based on the above deliberation, members discussed the Bank's basic stance on conducting monetary policy. Many members shared the recognition that, since March, the Bank had successively set out monetary easing measures in response to the impact of COVID-19, and that, for the time being, it was important to examine the effects of the series of measures in a careful and prudent manner. One of these members added that the Bank's policy measures that aimed at responding to COVID-19 had been introduced. One member said that the current three monetary easing measures were flexible, in that they were highly adaptable to various changes in developments. This member then noted that the total size of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) had increased significantly to about 110 trillion yen, mainly reflecting the expansion in interest-free and unsecured loans provided by private financial institutions based on the second supplementary budget. On this basis, members shared the recognition that it was important for the Bank to continue to support financing mainly of firms and maintain stability in financial markets through the three monetary easing measures. In addition, many members pointed out that, under the current circumstances, maintaining accommodative financial conditions through the three monetary easing measures, thereby contributing to sustaining firms' businesses and employment, was important not only in terms of the crisis response but also in order to achieve an economic recovery thereafter. One member commented that, in view of a possible prolonged impact of COVID-19, it was essential to continue with efforts and necessary support to achieve economic growth nationwide, so that firms' and households' growth expectations would not be hampered significantly. Meanwhile, one member said that falling into deflation amid a situation where inflation expectations were not anchored to 2 percent could be a considerable obstacle to achieving the price stability target, and thus, considering this risk, it was necessary to conduct additional easing at this point.

On this basis, members concurred that, for the time being, the Bank would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary. One member pointed out that the Bank should respond swiftly if further policy measures were necessary, and that it was important to firmly maintain cooperation between the government and the central bank as well as among central banks by, for example, closely exchanging information and sharing challenges and recognitions. A different member said that, in the conduct of economic measures, it was necessary first of all to minimize the risk of deflation taking hold, and thereafter the three arrows of Abenomics should continue to be carried out until the economy returned to a growth path in which the annual inflation rate was maintained sustainably at around 2 percent. One member commented that, in a situation where a gradual shift of phase from providing emergency support to promoting recovery materialized, the economic stimulus effects of the current monetary policy should be reexamined. The member then expressed the view that close attention should be paid to future price developments, taking into consideration the possibility that both the natural rate of interest and inflation expectations would decline.

Members also deliberated over points to take into account in conducting monetary policy in the future. Some members were of the view that, with the impact of COVID-19 likely to last for a prolonged period, there was a possibility that the issue would shift from liquidity to solvency. In relation to this, a few members pointed out that the government had been enhancing such programs as provision of credit guarantees and capital funds including quasi-capital funds. These members then expressed the recognition that, given that a basic function of central banks was to provide liquidity, it was important for the Bank to cooperate with the government while clarifying their respective roles. Some members noted that, if the effects of COVID-19 were prolonged and led to an increase in bankruptcies of firms and a rise in credit costs of financial institutions, the impact would spread to the financial system as a whole and to the functioning of financial intermediation. These members continued that it was necessary to examine future developments carefully. One member said that it was assumed that achievement of the price stability target would be delayed due to COVID-19 and that monetary easing would be prolonged further; in this situation, it was necessary to consider policy responses more carefully than before, while taking into account a further accumulation of side effects, so that deterioration in the real economy would not affect financial system stability. Meanwhile, one member expressed the view that firms had accumulated their profits as internal reserves rather than using them for wages and business fixed investment, and this had been reevaluated as an effective measure of overcoming the hardships of COVID-19. The member continued that, if firms continued to prioritize securing internal reserves, their investment stance would become cautious and the effects of monetary policy on their demand for funds could be limited.

With respect to yield curve control, members shared the recognition that the JGB yield curve had been formed smoothly in a manner consistent with the guideline for market operations.

Based on the above discussions, regarding the guideline for market operations for the intermeeting period, most members expressed the view that it was appropriate for the Bank to maintain the following guideline. First, as for the short-term policy interest rate, it would apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. Second, as for the long-term interest rate, the Bank would purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields would remain at around 0 percent. While doing so, the yields might move upward and downward to some extent mainly depending on developments in economic activity and prices.

On this point, one member expressed the opinion that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, in response to a possible increase in downward pressure on prices and with the aim of alleviating firms' and households' interest burden.

With regard to asset purchases other than JGB purchases, members shared the recognition that it was appropriate for the Bank to implement the following guideline. First, it would purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces of about 6 trillion yen and about 90 billion yen, respectively. With a view to lowering risk premia of asset prices in an appropriate manner, the Bank might increase or decrease the amount of purchases, depending on market conditions. For the time being, it would actively purchase ETFs and J-REITs so that their amounts outstanding would increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively. Second, as for CP and corporate bonds, the Bank would maintain their amounts outstanding at about 2 trillion yen and about 3 trillion yen, respectively. In addition, until the end of March 2021, it would conduct additional purchases with the upper limit of the amounts outstanding of 7.5 trillion yen for each asset.

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

With regard to the measures that the Bank had introduced and strengthened since March in response to the impact of COVID-19, members concurred that the Bank would continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations, and (3) active purchases of ETFs and J-REITs.

Regarding its policy stance for the time being, members agreed that the Bank would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary. Based on this, most members shared the view that, as for policy rates, it would expect short- and long-term interest rates to remain at their present or lower levels.

On this point, one member was of the opinion that, given the severe impact of COVID-19, further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target, with a view to not allowing deflation to take hold as well as committing itself to conducting monetary policy based on concrete conditions.

IV. Remarks by Government Representatives

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

(1) Domestic and overseas economies had been affected significantly by COVID-19. While continuing to proceed with efforts to prevent the spread of COVID-19, the government would increase the level of social and economic activities; however, it was expected that restoring daily lives completely would take some time. Under these circumstances, the second supplementary budget for fiscal 2020, with a scale of 117 trillion yen, was formulated by the government and approved by the Diet on June 12. It included the expansion in interest-free and unsecured loans provided by private financial institutions, in order to continue firmly supporting people and business operators facing a difficult economic situation and thoroughly protecting employment, businesses, and daily lives. The government would make efforts to swiftly implement this supplementary budget and continue to do its utmost with regard to economic and fiscal management.

(2) In addition, the government deemed that its measures and the Bank's measures, such as the fund-provisioning measure for private financial institutions that provided interest-free and unsecured loans decided in May, would continue to play a further effective role in ensuring smooth corporate financing and stabilizing financial markets.

(3) The government expected that the Bank would contribute to supporting economic and financial activities by continuing to do its utmost mainly to ensure smooth corporate financing and maintain stability in financial markets.

The representative from the Cabinet Office made the following remarks.

(1) The second preliminary estimate of the real GDP growth rate for the January-March quarter of 2020 was minus 2.2 percent on an annualized quarter-on-quarter basis, registering negative growth for the second consecutive quarter, but business fixed investment was revised upward. It was encouraging that business fixed investment had registered positive growth for the January-March quarter -- when the impact of COVID-19 had started to appear -- although the response rate in the *Financial Statements Statistics of Corporations by Industry, Quarterly*, which are source statistics for the GDP, was lower than usual due to the impact of COVID-19. From April through May, as economic activity had been constrained, due mainly to self-restraint from going outside, economic indicators were also weak; however, economic activity recently had resumed incrementally. While firmly supporting the economy, the government would work toward achieving both social and economic activities as well as the prevention of the spread of COVID-19, with a view to bringing the economy back onto the growth path from the bottom in April and May, when the state of emergency had been declared.

(2) The second supplementary budget for fiscal 2020 was approved by the Diet on June 12. The government estimated that the series of economic and fiscal policy measures, together with the emergency economic measures, would directly underpin and push up the real GDP by 6.4 percent. Regarding the support for corporate financing, the government had expanded its scale to 140 trillion yen, which included an increase both in de facto interest-free loans without collateral and in the allocation of special lending, and also capital funds including subordinated loans. The framework was designed to thoroughly protect employment, businesses, and daily lives. The government would continue to make efforts to implement the supplementary budget as swiftly as possible.

(3) The government would respond flexibly depending on changes in circumstances in view of a possible long-term battle against COVID-19. It expected the Bank to continue conducting appropriate monetary policy while closely monitoring current and future developments. It also expected that the Bank would continue to cooperate closely with the government while sharing a sense of crisis, in order to bring about an early recovery of the Japanese economy from the impact of COVID-19.

V. Votes

A. Vote on the Guideline for Market Operations

Based on the above discussions, to reflect the majority view of the members, the chairman formulated the following proposal on the guideline for market operations and put it to a vote.

The Policy Board decided the proposal by a majority vote.

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

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

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

2. The Bank will purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. FUNO Yukitoshi, Mr. SAKURAI Makoto, Ms. MASAI Takako, Mr. SUZUKI Hitoshi, and Mr. ADACHI Seiji.

Votes against the proposal: Mr. KATAOKA Goushi.

Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, in response to a possible increase in downward pressure on prices and with the aim of alleviating firms' and households' interest burden.

B. Vote on the Guideline for Asset Purchases

To reflect the view of the members, the chairman formulated the following proposal on the guideline for asset purchases and put it to a vote.

The Policy Board decided the proposal by a unanimous vote.

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

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

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

2. As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2 trillion yen and about 3 trillion yen, respectively. In addition, until the end of March 2021, it will conduct additional purchases with the upper limit of the amounts outstanding of 7.5 trillion yen for each asset.

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. FUNO Yukitoshi, Mr. SAKURAI Makoto, Ms. MASAI Takako, Mr. SUZUKI Hitoshi, Mr. KATAOKA Goushi, and Mr. ADACHI Seiji.

Votes against the proposal: None.

VI. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. Mr. Kataoka expressed the opinion that, given the severe impact of COVID-19, further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

Based on this discussion, the chairman formulated the Statement on Monetary Policy and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment).

VII. Approval of the Minutes of the Monetary Policy Meetings

The Policy Board approved unanimously the minutes of the Monetary Policy Meetings of April 27, and May 22, 2020, for release on June 19.

Attachment
June 16, 2020
Bank of Japan

Statement on Monetary Policy

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

   (1) Yield curve control

   The Bank decided, by an 8-1 majority vote, to set the following guideline for market operations for the intermeeting period. [Note 1]

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

   The long-term interest rate:
   The Bank will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent. While doing so, the yields may move upward and downward to some extent mainly depending on developments in economic activity and prices.[6]

   (2) Guidelines for asset purchases

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

   a) The Bank will actively purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) for the time being so that their amounts outstanding will increase at annual paces with the upper limit of about 12 trillion yen and about 180 billion yen, respectively.[7]

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

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

b) As for CP and corporate bonds, the Bank will maintain their amounts outstanding at about 2 trillion yen and about 3 trillion yen, respectively. In addition, until the end of March 2021, it will conduct additional purchases with the upper limit of the amounts outstanding of 7.5 trillion yen for each asset.

2. Japan's economy has been in an extremely severe situation due to the impact of the novel coronavirus (COVID-19) at home and abroad. Overseas economies have been depressed significantly, reflecting the impact of the COVID-19 pandemic. In this situation, exports and industrial production have declined substantially. Corporate profits and business sentiment have deteriorated, and the deceleration in the pace of increase in business fixed investment has become evident. With the continuing impact of COVID-19, the employment and income situation has shown some weakness, and private consumption has decreased significantly, mainly in services such as eating and drinking as well as accommodations. Housing investment has declined moderately. Meanwhile, public investment has increased moderately. Financial conditions have been accommodative on the whole but less so in terms of corporate financing, as seen in deterioration in firms' financial positions. 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 percent, mainly affected by the decline in crude oil prices. As for inflation expectations, relatively weak indicators have been observed.

3. With regard to the outlook, Japan's economy is likely to remain in a severe situation for the time being due to the impact of COVID-19 at home and abroad, although economic activity is expected to resume gradually. Thereafter, as the impact of COVID-19 subsides, the economy is likely to improve, supported by accommodative financial conditions and the government's economic measures, as well as through the expected materialization of pent-up demand and a projected recovery in production from the decline brought about by COVID-19. The year-on-year rate of change in the CPI (all items less fresh food) is likely to be negative for the time being, mainly affected by COVID-19 and the decline in crude oil prices. Thereafter, with the economy improving, the rate of change is expected to turn positive and then increase gradually.

4. With regard to risks to the outlook, there have been extremely high uncertainties over the consequences of COVID-19 and the magnitude of their impact on domestic and overseas economies. In addition, it is necessary to pay close attention to whether, while the impact of COVID-19 remains, firms' and households' medium- to long-term growth expectations will not decline substantially and the smooth functioning of financial intermediation will be ensured with financial system stability being maintained.

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.

   The Bank will continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations, and (3) active purchases of ETFs and J-REITs.

   For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary, and also it expects short- and long-term policy interest rates to remain at their present or lower levels. [Note 2]

[Note 1] Voting for the action: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. FUNO Yukitoshi, Mr. SAKURAI Makoto, Ms. MASAI Takako, Mr. SUZUKI Hitoshi, and Mr. ADACHI Seiji. Voting against the action: Mr. KATAOKA Goushi. Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, in response to a possible increase in downward pressure on prices and with the aim of alleviating firms' and households' interest burden.

[Note 2] Mr. Kataoka dissented, considering that, given the severe impact of COVID-19, further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.