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November 2, 2021

Bank of Japan

Minutes of the Monetary Policy Meeting

on September 21 and 22, 2021

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Tuesday, September 21, 2021, from 2:00 p.m. to 3:43 p.m., and on Wednesday, September 22, from 9:00 a.m. to 11:40 a.m.[1]

Policy Board Members Present

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

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

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

Mr. SUZUKI Hitoshi

Mr. KATAOKA Goushi

Mr. ADACHI Seiji

Mr. NAKAMURA Toyoaki

Mr. NOGUCHI Asahi

Ms. NAKAGAWA Junko

Government Representatives Present

Mr. NAKANISHI Kenji, State Minister of Finance, Ministry of Finance[2]

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

Mr. AKAZAWA Ryosei, State Minister of Cabinet Office, Cabinet Office[2]

Mr. INOUE Hiroyuki, Vice-Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. UCHIDA Shinichi, Executive Director

Ms. SHIMIZU Tokiko, Executive Director (Assistant Governor)

Mr. KAIZUKA Masaaki, Executive Director

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 27 and 28, 2021, as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Messrs. Nakanishi and Akazawa were present on September 22.

[3] Messrs. Ono and Inoue were present on September 21.

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

Mr. KAWAMOTO Takuji, Head of Policy Planning Division, Monetary Affairs Department

Mr. OTANI Akira, Director-General, Financial Markets Department

Mr. KAMEDA Seisaku, Director-General, Research and Statistics Department

Mr. NAGANO Teppei, Head of Economic Research Division, Research and Statistics Department

Mr. HIROSHIMA Tetsuya, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. NAKAJIMA Takeshi, Director-General, Secretariat of the Policy Board

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

Mr. NAKASHIMA Motoharu, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

Mr. HIGASHI Masato, Senior Economist, Monetary Affairs Department

Mr. KADOGAWA Yoichi, Senior Economist, Monetary Affairs Department

[4] Messrs. Fukuda and Nakashima were present on September 22 from 10:05 a.m. to 11:40 a.m.

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

A. Market Operations in the Intermeeting Period

In accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both of which were decided at the previous meeting on July 15 and 16, 2021, the Bank had been conducting purchases of Japanese government bonds (JGBs).[6] In this situation, 10-year JGB yields had been at around 0 percent, and the shape of the JGB yield curve had been consistent with the guideline for market operations.

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

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments generally had been in negative territory. With regard to interest rates on overnight instruments, the uncollateralized call rate had been in the range of around minus 0.01 to minus 0.04 percent; general collateral (GC) repo rates had been in the range of around minus 0.06 to minus 0.13 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been more or less flat. Meanwhile, special remuneration started to be applied through the Special Deposit Facility to Enhance the Resilience of the Regional Financial System from the September 2021 reserve maintenance period. Since then, short-term interest rates generally had been at the same levels as in the first half of the August reserve maintenance period.

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

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

The Bank will purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

While the number of confirmed cases of COVID-19 had been declining in Japan, the Tokyo Stock Price Index (TOPIX) had risen significantly, mainly reflecting the correction of Japanese stock prices, which had been undervalued relative to those in the United States and Europe. However, it had recently declined to a somewhat considerable extent, mainly due to concerns over a Chinese major real estate developer's debt problem. Long-term interest rates had been at around 0 percent under yield curve control. In the foreign exchange market, the yen had generally been more or less flat against both the U.S. dollar and the euro.

C. Overseas Economic and Financial Developments

Overseas economies had recovered on the whole, albeit with variation across countries and regions. Business sentiment globally had improved, and the production level of the manufacturing industry and the trade volume had been significantly above the pre-pandemic levels seen around spring 2020. Advanced economies and the Chinese economy had been the driving forces for the recovery in overseas economies, although downward pressure continued to be exerted on some emerging economies, partly due to the spread of COVID-19 variants. As for the outlook, with the impact of COVID-19 waning gradually, overseas economies were likely to continue recovering on the whole, partly supported by aggressive macroeconomic policies taken mainly in advanced economies. That said, the pace of recovery was highly likely to be uneven across countries, primarily due to the different paces in the vaccine rollout. In addition, there remained high uncertainties over the consequences of COVID-19 and their impact on overseas economies.

With regard to developments in overseas economies by region, the U.S. economy had recovered. Private consumption had increased, mainly on the back of the government's economic measures, although the pace of improvement in services consumption had decelerated following the spread of COVID-19 variants. The number of employees had increased, but the degree of recovery remained moderate relative to the pace of resumption in economic activity. As for the corporate sector, in a situation where business sentiment kept improving, business fixed investment had increased, mainly for machinery investment.

The European economy had picked up. Private consumption, including services consumption, had recovered clearly with economic activity continuing to resume. With regard to the corporate sector, business sentiment had improved, mainly in the services industry, while exports and production had followed a pick-up trend. Under these circumstances, business fixed investment had picked up.

The Chinese economy continued to recover. Private consumption had increased, mainly owing to an improvement in the employment and income situation, although the impact of COVID-19 remained in part. Fixed asset investment continued to rise, mainly in the manufacturing industry, on the back of recovery in demand at home and abroad and firm corporate profits. Under these circumstances, production also continued to increase.

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

With respect to overseas financial markets, stock prices in advanced economies had risen reflecting favorable corporate results; however, such markets had recently shown some nervousness, mainly owing to concerns over the debt problem in the Chinese real estate sector. Long-term interest rates were more or less unchanged, mainly due to expectations for continued monetary easing measures. In the foreign exchange market, currencies in emerging economies were more or less flat with market sentiment remaining favorable on the whole. Crude oil prices had been at high levels, partly due to supply concerns caused by the major hurricanes that hit the southern United States.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had picked up as a trend, although it remained in a severe situation due to the impact of COVID-19 at home and abroad. Regarding the outlook, the economy was likely to recover, with the impact of COVID-19 waning gradually, mainly due to progress with vaccinations, and supported by an increase in external demand, accommodative financial conditions, and the government's economic measures. That said, while vigilance against

COVID-19 continued, the level of economic activity, mainly in the face-to-face services sector, was expected to be lower than that prior to the pandemic for the time being.

Public investment continued on a moderate uptrend. Looking at the real public fixed capital formation in the GDP statistics for the April-June quarter of 2021, although it had been slightly negative for two consecutive quarters on a quarter-on-quarter basis, partly due to short-term fluctuations in the deflator, public investment seemed to have actually continued increasing moderately. As for the outlook, public investment was expected to keep increasing steadily, reflecting progress in construction related to building national resilience.

Exports and industrial production continued to increase against the background of the recovery in overseas economies, despite some exports and production having been affected by supply-side constraints. Real exports continued to increase, led by capital goods and IT-related goods, mainly on the back of an expansion in digital-related demand on a global basis. However, they showed a relatively significant decline in August on a month-on-month basis, mainly in automobile-related goods, due to such effects as of difficulties in procuring parts caused by the spread of COVID-19 in the ASEAN countries. As for the outlook, although exports and industrial production were likely to be pushed down significantly in the short run, mainly in automobile-related goods that reflected the effects of supply-side constraints, they were likely to continue increasing as a trend, on the back of the steady expansion in digital-related demand and a recovery in demand for business fixed investment, both on a global basis.

Corporate profits and business sentiment continued to improve on the whole, although weakness had been seen in some industries, such as face-to-face services. Looking at the *Financial Statements Statistics of Corporations by Industry, Quarterly*, current profits for the April-June quarter of 2021 registered improvement for the fourth consecutive quarter, which had clearly exceeded the pre-pandemic level seen for the October-December quarter of 2019. The high level in current profits was attributable to (1) an increase in dividends from subsidiaries following, for example, overseas businesses having been favorable, (2) a reduction in selling, general and administrative expenses -- such as advertising and business travel expenses -- during the COVID-19 pandemic, and (3) the underpinnings of various fiscal support measures. However, there had been significant variation across industries and firm sizes; for example, current profits of small and medium-sized nonmanufacturing firms had decreased with public health measures remaining in place.

Business fixed investment had picked up, although weakness had been seen in some industries. Real business fixed investment on a GDP basis for the April-June quarter increased clearly. While improvement in corporate profits continued, the aggregate supply of capital goods -- a coincident indicator of machinery investment -- continued to increase firmly, mainly for digital-related goods, such as personal computers and goods related to base stations and 5G networks, and for construction machinery. Private construction completed (nonresidential) -- a coincident indicator of construction investment -- had been on a moderate declining trend but stopped declining, mainly due to an increase in construction of logistics facilities on the back of an expansion in e-commerce. As for the outlook, an uptrend in business fixed investment was expected to become clear, supported by improvement in corporate profits and accommodative financial conditions. When fluctuations were smoothed out, machinery orders -- a leading indicator of machinery investment -- had shown a pick-up, mainly driven by an increase of those in the manufacturing industry. Planned expenses of construction starts -- a leading indicator of construction investment -- had picked up on the whole. This was because, although the construction of stores and accommodation facilities -- mainly by the eating and drinking as well as accommodations industries -- continued to show weakness, construction starts had been supported by an increase in construction of such buildings as logistics facilities as well as by progress in urban redevelopment projects and construction demand for medical, healthcare, and welfare services facilities.

Private consumption remained stagnant due to continuing strong downward pressure on consumption of services, such as eating and drinking as well as accommodations. The consumption activity index (CAI; real, travel balance adjusted) had seen a pick-up through July, particularly for services consumption such as travel and dining-out. However, it seemed to have turned to a decline in August, largely attributable to growing vigilance among consumers amid the nationwide spread of the Delta variant and the expansion in areas where the state of emergency had been declared, and in part to irregular weather. Consumption of durable goods had been decreasing recently, particularly for automobiles and household electrical appliances, mainly caused by a peaking-out of stay-at-home demand and supply-side constraints due to a semiconductor shortage. That of nondurable goods had been more or less flat at a relatively low level, pushed down by sluggishness in such items as clothes that reflected a decrease in opportunities to go out, although food and daily necessities had been firm, supported by an expansion in stay-at-home demand. Services consumption declined to a relatively large extent in May, affected by the third state of emergency, but turned to an increase in June, partly owing to the lifting of the state of emergency in most prefectures, and continued to increase in July.

Looking at developments in private consumption for August based on anecdotal information from firms and high-frequency indicators, it seemed to have turned to a decline on the whole; specifically, consumption of durable goods continued to decrease, while that of nondurable goods and services had declined again, reflecting an expansion in areas where the government had declared its fourth state of emergency and given the reduced frequency of people going outside, both of which were due to the spread of the Delta variant. In particular, dining-out and domestic travel seemed to have declined to low levels similar to those seen in May, when the third state of emergency was in effect. In the outlook, private consumption, mainly of face-to-face services, was highly likely to be subdued at a low level for the time being while the effects of COVID-19 and the resultant public health measures remained. Thereafter, as the impact of COVID-19 waned gradually, mainly led by the progress with vaccinations, private consumption was expected to pick up again, supported also by the materialization of pent-up demand.

Housing investment had picked up. After bottoming out in the October-December quarter of 2020, the number of housing starts had picked up, mainly owing to favorable demand for detached houses in suburban areas and pent-up demand. As for the outlook, with downward pressure stemming from the impact of COVID-19 dissipating, housing investment was likely to continue to pick up, partly supported by accommodative financial conditions and the pent-up demand.

The employment and income situation remained weak due to the impact of COVID-19. As for the employment situation, the number of employed persons in the *Labour Force Survey* had bottomed out, reflecting a pick-up in overall economic activity; however, it remained at a relatively low level, mainly for non-regular employees in the face-to-face services industry. The year-on-year rate of change in total cash earnings had been positive due to the base effect of the previous year's decline and an increase in scheduled cash earnings in some industries facing a strong sense of labor shortage. As for the outlook, employee income was likely to pick up, reflecting the pick-up in economic activity and improvement in business performance.

As for prices, international commodity prices had been at a high level on the back of the recovery in overseas economies and supply-side constraints observed in some industries, although concerns over the spread of COVID-19 had been exerting downward pressure on such prices. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) had been at around 0 percent, mainly due to a rise in energy prices, despite being affected by COVID-19 and a reduction in mobile phone charges. That for the April-June quarter was substantially revised downward by 0.7 percentage point, mainly because the effects of the reduction in mobile phone charges had expanded due to the rebasing of the CPI from the base year of 2015 to 2020. The year-on-year rate of change in the CPI (all items less fresh food and energy) had been slightly positive, even with the new 2020-based index, when excluding such effects as of mobile phone charges. Meanwhile, inflation expectations were more or less unchanged. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to turn slightly positive, mainly reflecting the rise in energy prices. Thereafter, it was expected to increase gradually, mainly on the back of continued improvement in economic activity and a dissipation of the effects of the reduction in mobile phone charges.

2. Financial environment

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

Firms' demand for funds was more or less unchanged on the whole, as that stemming mainly from a rise in precautionary demand due to the impact of COVID-19 generally had been moderate, although demand for funds such as those related to mergers and acquisitions of firms had been seen in part. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuing conditions for CP and corporate bonds had been favorable on the whole. Firms' funding costs had been hovering at extremely low levels. In this situation, the year-on-year rates of increase in the amount outstanding of bank lending and the aggregate amount outstanding of CP and corporate bonds had decelerated compared with the relatively high growth last year; they had been in the range of 0.0-0.5 percent and at around 5 percent, respectively. However, their amounts outstanding remained at high levels. The environment for external funding remained accommodative owing to the Bank's and the government's measures, as well as efforts made by financial institutions. The number of bankruptcies of firms had also been at a low level. Meanwhile, although firms' financial positions had improved compared with a while ago, they remained weak due to such factors as a decline in sales that reflected the impact of COVID-19.

The year-on-year rate of change in the monetary base had been positive at around 15 percent, and that in the money stock had been in the range of 4.5-5.0 percent.

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

A. Economic Developments

Members shared the view that, although global financial markets had shown some nervousness, particularly in the stock markets, mainly reflecting the adverse effects of the spread of the Delta variant and vigilance against the debt problem in the Chinese real estate sector, market sentiment remained at a favorable level on the whole on the back of a recovery in the global economy that reflected progress with vaccinations. One member commented that signs of increased risk-taking activities had been observed in some overseas credit markets, as seen, for example, in yields on high-yield bonds being at historically low levels; therefore, the effects of a possible reversal in the low interest rate environment warranted attention.

Members concurred that overseas economies had recovered on the whole, albeit with variation across countries and regions. Some members expressed the recognition that supply-side constraints, such as the semiconductor shortage and the supply chain disruptions due to the recent spread of COVID-19 in Southeast Asia, had been factors pushing down global production and trade activity. One member noted that advanced economies had been on an improving trend, including in the face-to-face services sector, as public health measures had been eased; meanwhile, in some emerging economies, domestic demand had been pushed down, due mainly to a delay in the vaccination rollout and the resurgence of COVID-19, as well as to a scale-back in fiscal support measures. As for the outlook, members agreed that, with the impact of COVID-19 waning gradually, overseas economies were likely to continue recovering on the whole, partly supported by aggressive macroeconomic policies taken mainly in advanced economies. On this basis, they expressed the recognition that the pace of recovery was highly likely to be uneven across countries, primarily due to the different paces in the vaccine rollout, and there also were high uncertainties over the outlook. Members pointed to the following as specific risk factors: (1) the course COVID-19 would take, including variants; (2) the pace of the vaccine rollout and the effects of the vaccines; (3) the effects of supply-side constraints, including the semiconductor shortage and difficulties in procuring parts; (4) developments in the Chinese economy, particularly in the real estate sector; (5) fluctuations in international commodity prices; and (6) geopolitical risks.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had recovered. Some members expressed the view that the recovery had been supported by an easing of public health measures and by large-scale fiscal support measures. Meanwhile, many members expressed the recognition that the pace of recovery had slowed recently, mainly in services consumption, due to the effects of the spread of the Delta variant and supply-side constraints. One of these members, making reference to the employment statistics for August, which were weaker than market expectations to a large extent, expressed the intent to closely monitor future labor market developments. Regarding price developments in the United States, while noting that the most recent data had shown that a peaking-out of inflationary pressure was becoming evident, one member said that such pressure would likely weaken gradually as supply-side constraints eased. In response, a different member expressed the view that prolonged constraints on the supply side could cause inflation rates to be higher for an extended period.

Members concurred that the European economy had picked up. Many members noted that, with the number of people becoming severely ill due to COVID-19 being contained following the rise in vaccination rates, economic activity continued to resume and private consumption, including face-to-face services, had recovered clearly.

Members shared the view that the Chinese economy continued to recover. One member noted that this was led by the private sector. Meanwhile, some members expressed the view that signs of a slowdown in the pace of recovery had been observed recently, due mainly to a tightening of public health measures reflecting the resurgence of COVID-19. With regard to the debt problem in the real estate sector, many members pointed out that, in addition to responses by the authorities, the effects this would have on the Chinese economy and financial system, and in turn on the global economy, warranted close attention. A few of these members expressed their intent to pay close attention to whether a tightening of regulations in a wide range of areas, including the real estate market, education, and IT, or developments toward redressing income inequality would lead to a reduction in the medium- to long-term growth potential of the Chinese economy.

Members shared the recognition that emerging economies maintained their pick-up trend on the whole, supported by firm external demand, although domestic demand had been pushed down and production had been affected in some countries and regions due to the resurgence of COVID-19. Some members pointed out that, in Southeast Asian economies, which had strong ties with Japan's economy, measures such as factory shutdowns had been implemented due to the resurgence of COVID-19, and this had been adversely affecting global supply chains. One of these members noted that, given that vaccination rates were still low in many of these economies, close monitoring was required on whether factories could resume their operations in a stable manner. Meanwhile, one member said that Southeast Asia was emerging from the most severe situation with COVID-19 and production activity might be resumed accordingly.

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 concurred that the economy had picked up as a trend, although it remained in a severe situation due to the impact of COVID-19 at home and abroad. Some members expressed the view that the economy had been held back, mainly affected by the resurgence of COVID-19 during the summer and supply-side constraints; however, with exports and production continuing on an uptrend, improvement in corporate profits had led to a pick-up in business fixed investment, suggesting that the virtuous cycle in the corporate sector had been maintained. Regarding the corporate sector, one member pointed out that, while the semiconductor shortage and the supply chain disruptions had been affecting exports and production to a considerable extent, business fixed investment had been firm, suggesting that the effects of supply-side constraints had been limited. On the other hand, one member noted that, as domestic demand, mainly for services, continued to be subdued with public health measures remaining in place, the consequences of COVID-19 and the pace of recovery in domestic demand continued to warrant close monitoring.

As for the outlook for economic activity, members shared the view that, although the level of Japan's economic activity, mainly in the face-to-face services sector, was expected to be lower than that prior to the pandemic for the time being, the economy was likely to recover, with the impact of COVID-19 waning gradually, mainly due to progress with vaccinations, and supported by the increase in external demand, accommodative financial conditions, and the government's economic measures. They also concurred that, thereafter, as the impact of COVID-19 subsided, it was projected to continue growing with a virtuous cycle from income to spending intensifying. One member pointed out that, in the short run, the economy was likely to be pushed down by a delay in the recovery in the face-to-face services sector due to the surge in COVID-19 cases in August and by production adjustments in the automobile-related sector because of various supply-side constraints. The member continued that, however, the recovery trend of the economy had been maintained on the whole, supported by positive factors such as investments that addressed climate change and those related to digitalization, and thus there was no need to change the current scenario for economic recovery. One member noted that it was a positive development that the number of confirmed cases had recently turned to a decrease, but given developments in other countries, a resurgence of COVID-19 would likely occur despite further progress with vaccinations in Japan. The member expressed hope that there would be further discussion on movement restrictions that also took into account improving economic activity.

Members shared the recognition that exports and production continued to increase against the background of the recovery in overseas economies, despite some exports and production having been affected by supply-side constraints. As for the outlook, they shared the view that, although exports and production were likely to be pushed down in the short run, mainly in automobile-related goods, primarily due to difficulties in procuring parts caused by the spread of COVID-19 in Southeast Asia, they were likely to continue increasing as a trend, on the back of the steady expansion in digital-related demand and the recovery in demand for business fixed investment, both on a global basis.

Members shared the recognition that business fixed investment had picked up, although weakness had been seen in some industries. One member expressed the view that corporate profits in industries related to IT and capital goods had improved on the back of the expansion in digital-related demand on a global basis, and that this had led to solid business fixed investment in such areas. As for the outlook, members shared the view that an uptrend in business fixed investment was expected to become clear, supported by improvement in corporate profits and accommodative financial conditions. One member -- noting that, in order to make up for the delay in digitalization of Japanese firms, high growth in software investment continued to be necessary from fiscal 2022 onward -- expressed the intent to pay close attention to developments in statistics, including in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) surveys. With regard to such structural reforms by firms, this member added that financial institutions that transacted with them also played an important role.

Members agreed that private consumption remained stagnant due to continuing strong downward pressure on consumption of services, such as eating and drinking as well as accommodations. In the outlook, they shared the view that private consumption, mainly of face-to-face services, was highly likely to be subdued at a low level for the time being; however, thereafter, as the impact of COVID-19 waned gradually, mainly led by the progress with vaccinations, it was expected to pick up again, supported also by the materialization of pent-up demand. Many members pointed out that, although the vaccination rates in Japan had risen to a level near those in Europe and the United States, pent-up demand had not yet materialized due to such factors as the spread of the Delta variant. In relation to this, some members expressed the view that, with vaccinations progressing for a wide range of age groups and thus the risk of severe illness due to COVID-19 declining, if public health measures were eased, pent-up demand was likely to materialize. One member noted that if, for example, vaccination certificates became widely used, it would be easier to protect public health and improve consumption activities simultaneously even in the face-to-face services sector. This member then added that attention should be paid to the timing and pace of a future recovery in consumption, considering that it seemed inevitable that there would still be a certain number of COVID-19 cases and that consumers in Japan were strongly risk averse. One member commented that, once public health measures were eased, it was fairly likely that consumption would pick up, but that there were high uncertainties over the sustainability of the pick-up given such factors as weakness in summer bonuses. This member continued that close monitoring would be required on, for example, the effects of developments in employee income on household sentiment.

With regard to the employment and income situation, one member noted that labor market conditions had improved moderately. This member continued that the year-on-year rate of increase in scheduled cash earnings per full-time employee had been at around 1 percent, recovering to the past average in around 2015 to 2019. A different member expressed the view that, although employment and wages had been on a recovery trend, it would take time before they returned to the pre-pandemic level. As for the outlook, members shared the view that employee income was likely to pick up, reflecting the pick-up in economic activity and improvement in business performance.

As for prices, members agreed that the year-on-year rate of change in the CPI had been at around 0 percent, mainly due to the rise in energy prices, despite being affected by COVID-19 and the reduction in mobile phone charges. They also shared the view that inflation expectations were more or less unchanged. Regarding the impact of the rebasing of the CPI, some members expressed the recognition that, although its year-on-year rate of change had been substantially revised downward, due mainly to the expansion of the negative contribution of mobile phone charges, the rate remained slightly positive even with the new base year of 2020 when excluding temporary factors such as mobile phone charges; thus, there was no change to the assessment that the underlying trend in prices had been steady compared with the degree of deterioration in the economy. One member pointed out that it was necessary to closely monitor the impact of the downward revision to the CPI, due to its rebasing, on the formation of inflation expectations. On this point, a different member noted that, although the impact of the rebasing had been seen in some short-term inflation expectation indicators, overall inflation expectations were more or less unchanged. That said, this member pointed to the following as grounds for Japan's inflation rate being clearly below those of Europe and the United States: (1) the recovery in demand in Japan was not strong compared with in Europe and the United States, and (2) it was difficult for firms to pass on cost increases to selling prices due to the largely adaptive mechanism of inflation expectations formation.

With regard to the outlook, members concurred that the year-on-year rate of change in the CPI was likely to turn slightly positive, mainly reflecting the rise in energy prices. They also shared the recognition that, thereafter, it was expected to increase gradually, mainly on the back of continued improvement in economic activity and a dissipation of the effects of the reduction in mobile phone charges. One member said that attention was warranted on how firms' price-setting stance and households' tolerance of price rises would change in line with the expected recovery in demand. Meanwhile, a different member commented that it was highly likely that the year-on-year rate of change in the CPI would turn positive, partly due to temporary factors to push up prices. This member continued that, given developments in the output gap and inflation expectations, however, achieving the price stability target was difficult.

In relation to the outlook for prices, members discussed the pass-through of the recent rise in international commodity prices and its relevance to the real economy. One member commented that, although the increase in raw material costs had only a limited impact on the CPI at present, the pass-through of prices could intensify if the output gap improved along with the progress toward economic normalization. A different member said that an increase in energy prices and price rises in everyday goods and services, such as those in food products resulting from an increase in raw material costs, could deviate from developments in general price indicators; thus, attention should be paid to how they would affect consumption behavior. One member pointed out that, if firms were unable to pass on cost increases stemming from a rise in commodity prices to their product prices, expenditure on business fixed investment and labor costs would be curbed, and households facing stagnant income in turn would consume less. This member continued that such a vicious cycle needed to be changed to achieve sustainable inflation. A different member expressed the recognition that it was still difficult for firms in Japan to pass on cost increases to selling prices. In assessing whether such circumstance would change, this member said that it was necessary to closely monitor progress on labor force transfer to growth areas, promotion of entry and exit of firms, and enhancement of innovation and profitability.

As for risks to economic activity and prices, members agreed that there had been high uncertainties over the consequences of COVID-19 and their impact on domestic and overseas economies. They also shared the view 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. One member pointed out that, if it became widely recognized that COVID-19 would not completely subside going forward, there was a risk that households and firms would increase their savings due to precautionary motives and pent-up demand would not grow as much as expected. With regard to supply-side constraints owing to the spread of COVID-19 in Southeast Asia, one member expressed the view that this was largely a transitory issue, given that there was no physical damage to production facilities and that, from a somewhat long-term perspective, production could be expected to recover from the decline brought about by the supply-side constraints. This member continued that, however, supply-side constraints seemed to be taking longer to resolve than initially anticipated by firms and that, with the wide range of supporting industries in Japan's automobile industry, there was also a risk that the adverse effects of these constraints could spread more than expected. A few members -- noting that firms in the automobile-related sector were forced to conduct large-scale production adjustments due to the semiconductor shortage and the suspension of operations of parts factories in Southeast Asia -- pointed out that it was necessary to pay attention to the risks that their effects would spread or be prolonged and that this would lead to postponement of business fixed investment and a deterioration in corporate financing. Regarding risks to prices, one member noted that, in view of the fact that firms' price cuts to stimulate demand continued to be restrained and that minimum wages would be raised, the risk of inflation stalling was low. A different member also expressed the recognition that the risk of the economy falling again into deflation had subsided, as measures of underlying inflation, such as the trimmed mean, and various indicators of inflation expectations had been firm. On the other hand, one member pointed out that, although demand shifts from goods to services when pent-up demand materializes, the responsiveness of services prices to demand is relatively low. Given this, this member continued that the inflation rate might not rise so much compared with the recovery in private consumption.

B. Financial Developments

Members concurred that financial conditions in Japan had been accommodative on the whole, although weakness in firms' financial positions had been seen. One member said that, although financial positions, mainly of firms, had been weak in some sectors, such as the face-to-face services sector, they had been on an improving trend compared with a while ago on the back of favorable business performance. This member also said that the precautionary demand for funds that grew rapidly immediately after the outbreak of the COVID-19 pandemic seemed to have calmed down. A different member pointed out that firms' financial positions had been generally stable and the number of bankruptcies of firms had been at a low level. One member said that it was necessary to closely monitor whether firms would pay off corporate debt that had accumulated during the COVID-19 pandemic as expected by financial institutions.

III. Staff Reports on the Funds-Supplying Operations to Support Financing for Climate Change Responses

The staff provided the following explanation on the specifics of a possible design of the Funds-Supplying Operations to Support Financing for Climate Change Responses (Climate Response Financing Operations) based on its preliminary outline, which the Bank decided at the Monetary Policy Meeting held on July 15 and 16, 2021.

As for eligible counterparties of the operations, the Bank stated in the preliminary outline that they would be financial institutions that disclose a certain level of information on their efforts to address climate change. In terms of the details of "a certain level of disclosure," the Bank could require counterparties to make public information on the four thematic areas in the Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) as well as on the targets and actual results for their investment or loans, with a view to ensuring that those wishing to be counterparties for the operations were organizationally committed to efforts to address climate change.

With respect to the range of eligible investment or loans, the Bank stated in the preliminary outline that these would be investment or loans that contribute to Japan's actions to address climate change, and noted that they could include (1) green loans or bonds, (2) sustainability-linked loans or bonds, and (3) transition finance. As for the types of eligible investment or loans, the three types mentioned in the preliminary outline that complied with corresponding international standards or the Japanese government's guidelines could be made eligible. In addition to these, investment or loans that financial institutions determined to be substantially equivalent to the aforementioned three types could be made eligible, on condition that such institutions disclosed the contents of their own criteria and determination process. Regarding the requirements for "Japan's actions" to address climate change, investment or loans that applied to one of the following could be made eligible: (1) those that would reduce Japan's greenhouse gas emissions or other investment or loans for domestic businesses to address climate change; (2) those that would contribute to (1) through supply chains; (3) those for research and development for which outcomes would be conducive to (1); and (4) of the investment or loans for overseas businesses, those that would contribute to achieving Japan's greenhouse gas emissions reduction target through the Joint Crediting Mechanism.

Given that determining the eligibility of investment or loans was left to the discretion of financial institutions under the Climate Response Financing Operations, the Bank could require them to disclose the following, with a view to ensuring that discipline would be exercised through public disclosure when using the operations: (1) the criteria used to determine which investment or loans would contribute to addressing climate change, upon reporting to the Bank, and (2) the process of determining whether the investment or loans would conform with the criteria mentioned in (1).

The terms and conditions of the operations could be as follows, as presented in the preliminary outline. The interest rate would be 0 percent. Twice as much as the amount outstanding of funds counterparties receive would be added to the Macro Add-on Balances in their current accounts at the Bank under the Complementary Deposit Facility. In the Interest Scheme to Promote Lending, the operations would fall under Category III, for which the applied interest rate (payable from the Bank to counterparties) was 0 percent.

If the establishment of principal terms and conditions of the operations based on the above design were to be decided at this meeting, the staff would formulate the detailed rules on matters concerning (1) the selection of eligible counterparties and (2) the criteria used to determine investment or loans that contributed to Japan's actions to address climate change, as well as the disclosure of information on such investment or loans. The detailed rules would be released together with the decisions made at this meeting. On this basis, the staff would proceed with necessary preparations so that the first loan disbursement could be made in late December.

IV. Summary of Discussions on Monetary Policy

Members discussed monetary policy based on the above assessment of economic and financial developments as well as the staff reports on a possible design of the Climate Response Financing Operations.

Regarding <u>the Bank's basic stance on conducting monetary policy for the time being</u>, members agreed that the three monetary easing measures -- namely, (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits, and (3) purchases of ETFs and J-REITs -- had been exerting their intended effects. They also agreed that it was important for the Bank to continue to support financing, mainly of firms, and maintain stability in financial markets through the three monetary easing measures. On this basis, they shared the recognition 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. Regarding the Special Program, one member said that, although stability had gradually become widespread in corporate financing on the whole, high uncertainties remained, due partly to the spread of the Delta variant; it was therefore important to support financing, mainly of firms, for the time being under the Special Program, of which the duration had been extended until the end of March 2022. A different member pointed out that, although financial positions, such as of firms, had been generally stable, there was no significant change in the situation where economic activity had been supported by accommodative financial conditions, and thus it was appropriate for the Bank to maintain the current monetary policy measures, including the Special Program. This member also commented that, going forward, it was necessary to continue to assess financial conditions by closely monitoring differences in the financial positions of borrowing firms; for example, by industry. Another member noted that the Special Program was to be scaled back if the impact of COVID-19 on economic activity dissipated, but the decision on whether to do so should be made with caution. Meanwhile, one member pointed out that, although financial markets had been stable on the whole, it was necessary to be vigilant in closely monitoring economic and financial developments, including the impact of developments in the Chinese real estate sector on global financial markets, and be ready to respond promptly if necessary.

Members expressed their opinions on <u>various points to take into account in relation to the conduct of monetary policy</u>. One member said that, while some other central banks had begun to shift toward scaling back asset purchases, due partly to a rise in inflation, it was expected to take time for the Bank to achieve the price stability target; therefore, it should persistently continue with powerful monetary easing based on Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, of which the sustainability and nimbleness had been enhanced following the assessment conducted in March 2021. A different member pointed out that, in countries where vaccinations had progressed ahead of Japan, economic policy measures in response to COVID-19 had been gradually scaled back against the background of an increase in pent-up demand reflecting the normalization of economic activity; however, in Japan, it was important to ensure that an anticipated increase in pent-up demand following economic normalization led to achievement of the price stability target of 2 percent. This member added that, with such developments overseas, containing a rise in interest rates under the framework of yield curve control could enhance the degree of monetary easing in Japan relative to other countries. Meanwhile, one member expressed the recognition that the Bank should strengthen its monetary easing stance with a view to improving the output gap and inflation expectations, and thereby achieve an economic recovery and the price stability target early. As for cooperation with the government, one member said that a policy mix of fiscal and monetary policies had been effective during the pandemic, and it would continue to be important even in the phase when the impact of COVID-19 subsided and economic activity normalized. A different member noted that the Bank should share a vision with the government regarding socio-economy and policies in the post-pandemic era. This member continued that, specifically, in addition to cooperation in terms of fiscal and monetary policies, it was desirable to share the direction in, for example, addressing climate change, advancing economic growth, and transforming the economic structure. One member expressed the view that, while bearing in mind a similar long-term horizon, the government and the Bank should fulfill their respective roles in making responses to the pandemic and addressing important challenges, such as digitalization and decarbonization. Moreover, one member said that, with regard to the implementation of the Special Deposit Facility to Enhance the Resilience of the Regional Financial System, under which special remunerations had started to be applied from the September 2021 maintenance period, whether there was no interference with the smooth conduct of market operations should be closely monitored. In addition, one member commented that, if households that saved their surplus funds in the form of cash or deposits began to actively invest in, for example, investment trusts, their disposable income was expected to increase through dividend income. On this basis, the member expressed the recognition that, with a view to enhancing the transmission effects of monetary policy, it was important to encourage such households to have a better understanding of financial asset investment.

Members then discussed <u>the design of the Climate Response Financing Operations</u>. One member noted that, while a broad list of the types of eligible investment or loans for the operations would be provided, concrete decisions were left to financial institutions, and this enabled the Bank to avoid involvement in micro-level resource allocation as much as possible. This member also said that, with regard to information the Bank would ask financial institutions to disclose, this would be based on such factors as disclosure rules that were in line with the Recommendations of the TCFD, and therefore exercise of market discipline could be expected. A different member commented that the operations were designed in a way that would enable an acceleration in a wide range of efforts made in the private sector to address climate change, while giving consideration to market neutrality and exercising discipline on financial institutions when using the operations. One member said that, while the external environment surrounding climate change, such as regarding taxonomy, was fluid, the operations facilitated flexible responses to such external changes. A different member expressed the view that, since actions toward addressing climate change had just gotten underway worldwide, this was an appropriate time to set up the Climate Response Financing Operations, also from the viewpoint of supporting Japan's medium- to long-term growth potential. One member noted that, if the principle terms and conditions could be decided at this meeting, it would be practically possible for the Bank to start providing funds within 2021. Based on this discussion, members concurred that the design of the Climate Response Financing Operations explained by the staff was appropriate on the whole.

Furthermore, members also discussed points to take into account when conducting the Climate Response Financing Operations. Some members pointed out that, given the fluidity of the environment at home and abroad surrounding climate change issues, in order for the operations to support efforts by the private sector in a continuous manner, the Bank should closely follow discussions such as those regarding taxonomy, as well as financial institutions' responses, including information disclosures, and accordingly consider making adjustments to the operations as necessary. One member commented that the amount of fund-provisioning through the Climate Response Financing Operations might not be significant at the outset, since efforts toward decarbonization by firms and financial institutions had just begun; however, the amount was expected to increase as the operations served as a catalyst and, accordingly, as the private sector stepped up its efforts. One member expected that the government would make further efforts to prevent the green transformation from delaying so that the hollowing out of industries in Japan did not accelerate, and said that, at the same time, it was necessary for the Bank to firmly implement the Climate Response Financing Operations. A different member noted that Japan's actions to address climate change could directly relate to its international competitiveness, and they would have important implications for the Bank's mandate of achieving price stability as well as financial system stability; therefore, the Bank should facilitate understanding of this point through clear communication. Some members pointed out that, from the perspective of the Bank's accountability, policy effects of the Climate Response Financing Operations should be assessed, and further research and studies in related areas should also be carried out, such as the impact climate change would have on the macroeconomy, including on prices.

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

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

On this point, one member expressed the opinion that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to encouraging firms to make active business fixed investment for the post-COVID-19 era.

With regard to asset purchases other than JGB purchases, members shared the recognition that it was appropriate for the Bank to implement the following guideline. First, it would purchase ETFs and J-REITs as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding. Second, the Bank would purchase CP and corporate bonds with an upper limit on the amount outstanding of about 20 trillion yen in total until the end of March 2022.

With respect to the Bank's stance on its future conduct of monetary policy, members shared the view that it would (1) continue with 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, and (2) continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeded 2 percent and stayed above the target in a stable manner.

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

Regarding its policy stance for the time being, members 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 concurred that, as for policy rates, it would expect short- and long-term interest rates to remain at their present or lower levels.

On this point, one member was of the opinion that further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

V. Remarks by Government Representatives

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

(1) With regard to climate change, the government had been working toward achieving carbon neutrality by 2050. It considered that the Climate Response Financing Operations reflected the Bank's proactive stance toward addressing climate change. It expected the Bank to appropriately proceed with preparations for the launch of the fund provision within 2021.

(2) Applications for budget requests for fiscal 2022 were closed on August 31, 2021, and the government had started working on budget formulation. Under the New Plan to Advance Economic and Fiscal Revitalization, it would implement expenditure reforms, including budget formulation in line with the benchmarks and budget prioritization on areas that would be a driving force for new growth, such as the green society and digitalization.

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

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was expected to show movements of picking up, but attention needed to be paid to a possible heightening of downside risks stemming from the course of COVID-19 at home and abroad and the effects of supply-chain disruptions.

(2) For the time being, the government would respond to the pandemic with top priority on containing the spread. In light of the vaccination situation, it would also promote a

national discussion and proceed with both infection prevention measures and efforts to restore daily life.

(3) The government would conduct macroeconomic policy management in a timely manner, without hesitation. It considered the Bank's Climate Response Financing Operations to be an important measure that was closely aligned with its vigorous efforts in addressing climate change; the government expected the Bank to persistently continue with them. It also expected the Bank to continue to closely cooperate with the government.

VI. Votes

A. Vote on the Guideline for Market Operations

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

The Policy Board decided the proposal by a majority vote.

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

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

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

2. The Bank will purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

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

Votes against the proposal: Mr. KATAOKA Goushi.

Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to encouraging firms to make active business fixed investment for the post-COVID-19 era.

B. Vote on the Guideline for Asset Purchases

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

The Policy Board decided the proposal by a unanimous vote.

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

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

1. The Bank will purchase ETFs and J-REITs as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

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

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

Votes against the proposal: None.

C. Vote on "Establishment of 'Principal Terms and Conditions of the Funds-Supplying Operations to Support Financing for Climate Change Responses'"

Members voted unanimously to approve "Establishment of 'Principal Terms and Conditions of the Funds-Supplying Operations to Support Financing for Climate Change Responses,'" which represented the aforementioned staff reports.

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

Votes against the proposal: None.

D. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy, which took into account the decision on the details of the Climate Response Financing Operations. Mr. Kataoka expressed the opinion that further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

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

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of July 15 and 16, 2021, for release on September 28.

Attachment
September 22, 2021
Bank of Japan

Statement on Monetary Policy

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

   (1) Yield curve control

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

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

   The long-term interest rate:
   The Bank will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

   (2) Guidelines for asset purchases

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

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

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

2. The Bank decided, by a unanimous vote, on the details of the Funds-Supplying Operations to Support Financing for Climate Change Responses (Climate Response Financing Operations), of which the preliminary outline was made public at the previous MPM.

3. Japan's economy has picked up as a trend, although it has remained in a severe situation due to the impact of the novel coronavirus (COVID-19) at home and abroad. Overseas economies

have recovered on the whole, albeit with variation across countries and regions. In this situation, exports and industrial production have continued to increase despite some exports and production having been affected by supply-side constraints. In addition, corporate profits and business sentiment have continued to improve on the whole. Business fixed investment has picked up, although weakness has been seen in some industries. The employment and income situation has remained weak due to the impact of COVID-19. Private consumption has remained stagnant due to continuing strong downward pressure on consumption of services, such as eating and drinking as well as accommodations. Housing investment has picked up. Public investment has continued on a moderate uptrend. Financial conditions have been accommodative on the whole, although weakness in firms' financial positions has been seen. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has been at around 0 percent, mainly due to a rise in energy prices, despite being affected by COVID-19 and a reduction in mobile phone charges. Meanwhile, inflation expectations have been more or less unchanged.

4. Although the level of Japan's economic activity, mainly in the face-to-face services sector, is expected to be lower than that prior to the pandemic for the time being, the economy is likely to recover, with the impact of COVID-19 waning gradually, mainly due to progress with vaccinations, and supported by an increase in external demand, accommodative financial conditions, and the government's economic measures. Thereafter, as the impact subsides, it is projected to continue growing with a virtuous cycle from income to spending intensifying. The year-on-year rate of change in the CPI (all items less fresh food) is likely to turn slightly positive, mainly reflecting the rise in energy prices. Thereafter, it is expected to increase gradually, mainly on the back of continued improvement in economic activity and a dissipation of the effects of the reduction in mobile phone charges.

5. With regard to risks to the outlook, there have been high uncertainties over the consequences of COVID-19 and 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.

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

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

[Note 1] Voting for the action: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SUZUKI Hitoshi, Mr. ADACHI Seiji, Mr. NAKAMURA Toyoaki, Mr. NOGUCHI Asahi, and Ms. NAKAGAWA Junko. Voting against the action: Mr. KATAOKA Goushi. Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to encouraging firms to make active business fixed investment for the post-COVID-19 era.

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