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January 21, 2022

Bank of Japan

Minutes of the Monetary Policy Meeting

on December 16 and 17, 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 Thursday, December 16, 2021, from 2:00 p.m. to 3:50 p.m., and on Friday, December 17, from 9:00 a.m. to 11:50 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. OIE Satoshi, State Minister of Finance, Ministry of Finance[2]
Mr. ONO Heihachiro, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]
Mr. KIKAWADA Hitoshi, 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 January 17 and 18, 2022, 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. Oie and Kikawada were present on December 17.

[3] Messrs. Ono and Inoue were present on December 16.

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

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 December 17 from 10:13 a.m. to 11:50 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 October 27 and 28, 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) (the Special Operations to Facilitate Financing), both under the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) (the Special Program); 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 and general collateral (GC) repo rates had declined, due partly to the Bank's purchases of Japanese government securities (JGSs) under repurchase agreements, after rising somewhat through the end of the reserve maintenance period for November. The respective rates had been in the range of around minus 0.01 to minus 0.05 percent and of around minus 0.05 to minus 0.10 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been more or less flat.

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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.

The Tokyo Stock Price Index (TOPIX) had seen large fluctuations; after rising mainly on the back of favorable corporate results, it declined when market sentiment deteriorated globally following the emergence of the Omicron variant. Long-term interest rates had been at around 0 percent under yield curve control. In the foreign exchange market, the yen had been more or less flat against the U.S. dollar with fluctuations following changes in market sentiment and developments in U.S. interest rates. It had appreciated against 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 had been significantly above the pre-pandemic level seen around spring 2020. 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 developments in COVID-19 and supply-side constraints, as well as 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 for goods consumption, partly owing to the government's economic measures. 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. Regarding price developments, the personal consumption expenditure (PCE) deflator had marked a high increase on a year-on-year basis due to the base effect of its decline in 2020 and to the effects of supply-side constraints stemming from the resumption of economic activity.

The European economy had recovered. Private consumption kept recovering, particularly for services consumption, with economic activity continuing to resume. With regard to the corporate sector, although business sentiment continued to improve, mainly in the services industry, business fixed investment had weakened somewhat, particularly for transport equipment. As for prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) had been significantly above 2 percent, mainly due to the base effect of its decline in 2020 and the recent rise in energy prices.

The Chinese economy continued to recover as a trend, although the pace of improvement had decelerated. Private consumption had increased as a trend, mainly against the background of an improvement in the employment and income situation, although the impact of COVID-19 remained in part and automobile sales had slowed due to the impact of a semiconductor shortage. Fixed asset investment had been more or less flat, mainly because of the deceleration in real estate investment that reflected, for example, firms' debt problems. Under these circumstances, production had slowed, partly reflecting power supply issues and the effects of supply-side constraints.

Emerging economies other than China had picked up, mainly because domestic demand and production had improved with the number of confirmed COVID-19 cases being generally constrained, and because exports had increased. The NIEs had recovered owing to an increase in exports and a pick-up in domestic demand. The ASEAN countries had seen a pick-up in economic activity, supported by an increase in domestic and external demand, although the impact of COVID-19 remained in part.

With respect to overseas financial markets, stock prices in advanced economies had declined temporarily, to a large extent due to concerns over the Omicron variant; however, they had risen recently, mainly in the United States, partly reflecting favorable corporate results. Long-term interest rates had declined due to safe-haven flows. Crude oil prices had declined, particularly in reflection of concerns that demand would wane given the emergence of the Omicron variant. In the foreign exchange market, currencies in emerging economies had depreciated, mainly due to a decline in commodity prices.

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 as downward pressure stemming from COVID-19 on services consumption and the effects of supply-side constraints waned, while being supported by an increase in external demand, accommodative financial conditions, and the government's economic measures.

Public investment had been relatively weak, albeit at a high level. The real public fixed capital formation in the GDP statistics for the July-September quarter of 2021 had been negative for three consecutive quarters on a quarter-on-quarter basis, primarily due to a decrease in investment related to disaster relief construction. As for the outlook, public investment was expected to stay at a high level, supported by progress in construction related to building national resilience.

Exports and industrial production continued to increase as a trend on the back of the recovery in overseas economies, despite remaining weak due to the effects of supply-side constraints. Looking at real exports by goods, those of automobile-related goods had recently turned to an increase, after having declined significantly due to supply-chain disruptions caused by the spread of COVID-19 in the ASEAN countries. Those of capital goods and IT-related goods continued on an uptrend, reflecting an expansion in global demand for digital-related goods. As for the outlook, exports and industrial production were expected to increase firmly again on the back of firm expansion in global demand, particularly for digital-related goods, and the effects of supply-side constraints waning.

Corporate profits continued to improve on the whole, although weakness had been seen in some industries, such as face-to-face services. After having registered improvement for four consecutive quarters, current profits in the *Financial Statements Statistics of Corporations by Industry, Quarterly* remained at a high level for the July-September quarter of 2021, which clearly exceeded the pre-pandemic level seen for the October-December quarter of 2019. With the impact of COVID-19 waning, business sentiment had improved in a wide range of industries, including face-to-face services, despite being affected by a rise in raw material costs and supply-side constraints. In the December 2021 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the diffusion index (DI) for business conditions for all industries and enterprises (the proportion of firms responding that business conditions were "favorable" minus the proportion of those responding that they were "unfavorable") had improved for six consecutive quarters and moved into positive territory, after hitting a bottom in the June 2020 survey. The DI for the manufacturing industry continued to improve, remaining above the pre-pandemic level. As for the nonmanufacturing industry, the DI for the face-to-face services industry had picked up clearly, reflecting calmness in the COVID-19 situation and the nationwide lifting of public health measures; the business conditions DI for the nonmanufacturing industry as a whole had improved to a relatively large extent.

Business fixed investment had picked up, although weakness had been seen in some industries. Real business fixed investment on a GDP basis for the July-September quarter had declined from the previous quarter, due in part to the effects of supply-side constraints seen in some areas of machinery investment. 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. Machinery orders (private sector, excluding volatile orders) and estimated costs of construction starts (private, nonresidential), both of which are leading indicators, had picked up. The business fixed investment plan in the December *Tankan* showed that business fixed investment -- including software and research and development (R&D) investments and excluding land purchasing expenses, for all industries and enterprises including financial institutions -- was likely to see a substantial year-on-year rate of increase of 8.4 percent for fiscal 2021. This partly reflected the prospects for improvement in corporate profits, in addition to resumption in investments that had been restrained temporarily.

Private consumption had picked up gradually, with downward pressure stemming from COVID-19, particularly on services consumption, waning somewhat. The consumption activity index (CAI; real, travel balance adjusted) had declined clearly for August 2021, mainly due to the spread of the Delta variant; however, it turned to an increase in September, with the COVID-19 situation heading toward improvement, and then surged in October, reflecting the nationwide lifting of public health measures. Consumption of durable goods had declined through the summer due to a peaking-out of stay-at-home-related demand and supply-side constraints seen in such areas as automobiles; however, supported by the easing of supply-side constraints in particular, it had picked up recently. Consumption of nondurable goods had been increasing moderately, mainly on the back of a pick-up in people's willingness to go out. Services consumption -- particularly in dining-out and domestic travel -- increased clearly for October after generally having stopped declining for September.

Looking at recent developments in private consumption based on anecdotal information from firms and high-frequency indicators, stay-at-home consumption, such as of food, had been decreasing somewhat along with an increase in opportunities to go out; however, for durable goods, sales of automobiles had seen a rise, albeit at a low level, and services consumption, such as in dining-out and domestic travel, seemed to have continued to pick up amid a situation of the number of confirmed COVID-19 cases being contained as a trend. In the outlook, private consumption was likely to recover as downward pressure stemming from COVID-19 on services consumption and the effects of supply-side constraints waned, while being supported by the government's economic measures and the materialization of pent-up demand.

The employment and income situation remained weak due to the impact of COVID-19. 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. Total cash earnings per employee had been increasing moderately but were still below the pre-pandemic level. As for the outlook, employee income was likely to continue improving moderately and its level was expected to increase markedly.

As for prices, international commodity prices remained at a high level against the background of a recovery in the global economy and supply-side constraints in some areas, although such prices had declined temporarily, mainly reflecting concerns over the Omicron variant. The rate of change in the producer price index (PPI) relative to three months earlier continued to increase clearly, reflecting developments in international commodity prices and foreign exchange rates. 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 the rise in energy prices, despite being affected by a reduction in mobile phone charges. The year-on-year rate of change in the CPI (all items less fresh food and energy) had been at around 0.5 percent when excluding temporary factors such as the effects of the reduction in mobile phone charges. Meanwhile, inflation expectations had picked up. Such expectations of households, firms, economists, and market participants had been rising above levels seen immediately prior to the pandemic, particularly for short-term expectations, mainly reflecting developments in international commodity prices. On the other hand, long-term inflation expectations had not yet risen broadly, although some indicators had increased moderately, such as firms' inflation outlook in the December *Tankan*. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to increase moderately in positive territory in the short run, reflecting the rise in energy prices. Thereafter, albeit with fluctuations due to temporary factors, it was projected to increase gradually as a trend, mainly on the back of improvement in the output gap and a rise in medium- to long-term inflation expectations.

2. Financial environment

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

Firms' demand for funds was more or less unchanged on the whole, as a rise in precautionary demand due to the impact of COVID-19 had generally subsided, although demand for working capital had been seen in part, reflecting an increase in international commodity prices. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuance conditions for CP and corporate bonds had been favorable. Issuance spreads on CP and corporate bonds had been below the pre-pandemic levels, owing partly to the effects of the Bank's additional purchases of them. In addition, the DI for issuance conditions for CP in the December *Tankan* had shown an improving trend and firms answering that their issuance conditions were "severe" accounted for a very small proportion. 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 been at around 0.5 percent and about 10 percent, respectively; 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 been at a low level. Firms' financial positions continued to improve on the whole on the back of the pick-up in Japan's economy, although weakness remained, particularly for firms in industries that were susceptible to the impact of COVID-19, as well as small and medium-sized ones. The DI for firms' financial positions in the *Tankan* continued to improve on the whole; however, that for small enterprises stayed at a low level compared with that for large ones. By industry, while the DIs for firms' financial positions in the industries of accommodations as well as eating and drinking services and of services for individuals had become notably weak, those for other industries had generally recovered to the pre-pandemic levels. Meanwhile, funding conditions for households in the housing loan market remained accommodative.

The year-on-year rate of increase in the monetary base had been in the range of 9.0-9.5 percent while that in the money stock had been at around 4.0 percent.

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

A. Economic Developments

Members shared the view that global financial markets had seen large fluctuations due to the fact that both positive and negative factors had been taken into account, including favorable corporate results, uncertainties regarding the Omicron variant, and moves to reduce monetary accommodation in the United States and Europe. One member said that these markets had been nervous, in that the participants' sentiment changed easily within a short period of time. A different member commented that attention needed to be paid to the risk that a deceleration in the pace of asset purchases and the projected policy rate hikes, both by the Federal Reserve, would have a significant impact on financial markets at home and abroad, including stock price declines and a resultant appreciation of the yen in foreign exchange markets. One member also pointed to a rise in housing prices across countries, such as in the United States, and to an increase in exposure for hedge funds, for example, to crypto-assets as risk factors to global financial markets.

Members concurred that overseas economies had recovered on the whole, albeit with variation across countries and regions. One member expressed the view that, at the moment, signs of a significant decline in demand due to the Omicron variant had not been observed. A different member noted that advanced economies had been taking measures that were intended to bring about progress in the resumption of economic activity while protecting public health; however, shifting toward economic normalization while the contagion risk of COVID-19 remained had made it difficult for supply-side constraints to be resolved promptly, and this might have led to rises in prices and wages. 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, such as the spread of variants including Omicron; (2) the effects of supply-side constraints; (3) developments in commodity prices; (4) inflation developments and the effects of policy responses in the United States; (5) the slowdown in economic growth in China amid concern over private debt problems; and (6) geopolitical risks. One member said that constraints on people's movement due to the spread of the Omicron variant had been weighing on global economic recovery; however, if it turned out that the Omicron variant was attenuated and signs of COVID-19 subsiding started to be seen, the pace of recovery in the global economy would likely accelerate and supply-side constraints might become more severe. Meanwhile, one member commented that it was extremely important for vaccines to be widely rolled out on a global basis and thereby reduce a risk of the emergence of new variants, contain infection, and prevent serious illness, so that people could resume economic activity without worry and the global economy could return to a stable growth path.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had recovered. One member said that it continued to recover firmly, as seen in the Institute for Supply Management (ISM) indices for both manufacturing and nonmanufacturing being at high levels, but inflationary pressure had been increasing further due to supply-side constraints and a recovery in demand. A different member noted that a rise in wages -- due to the shortage of labor supply stemming from the contagion risk of COVID-19 -- had led to an increase in the number of people who left their jobs voluntarily in pursuit of higher wages, and to further labor shortage. One member stated that the year-on-year rate of change in real wages had been negative due to historically high inflation, and expressed an intent to pay close attention to the risk of further prolonged inflation and upward deviation of inflation expectations. A different member commented that attention was warranted on the future impact of the Federal Reserve's reduction in monetary accommodation on the inflation rate and economic growth.

Members agreed that the European economy had recovered. A few members expressed the view that the recovery trend was being maintained with measures to make progress in the resumption of economic activity while protecting public health being taken, such as the utilization of vaccination certificates. On this basis, one of these members stated that, as movement restrictions had recently been tightened gradually, reflecting the resurgence of COVID-19, attention was warranted regarding their impact on future economic activity.

Members shared the view that the Chinese economy continued to recover as a trend, although the pace of improvement had decelerated. A few members expressed the recognition that, in a situation where the deceleration in the real estate sector had been affecting the overall economy, including private consumption, the government -- while giving consideration to underpinning the economy -- maintained its stance of further deleveraging the real estate sector. A few other members expressed the recognition that power supply issues had been alleviated, partly owing to an increase in coal supply. One of these members noted that it was difficult to build a new large-scale coal-fired power plant amid the global trend toward decarbonization; therefore, power supply issues could be a factor to push down the Chinese economy's medium- to long-term growth, along with the aging population and strengthening of various controls.

Members shared the recognition that emerging economies had picked up. Some members expressed the recognition that supply chains in Southeast Asia had been heading toward normalization, with the COVID-19 situation in the region calming down.

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. One member expressed the recognition that the GDP growth rate for the July-September quarter of 2021 had registered a relatively large negative figure, as the effects of downward pressure stemming from supply-side constraints had been spreading widely, not only to exports and production but also to private consumption and business fixed investment. A different member commented that factors that had pushed down the economy for the July-September quarter, such as the spread of COVID-19 and supply-side constraints causing a production decline, particularly in automobiles, had been heading toward an improvement recently. A few members expressed the view that, given, for example, the fact that business sentiment had improved for six consecutive quarters in the December *Tankan*, the effects of supply-side constraints were temporary and a virtuous cycle in the corporate sector had been maintained. One member was of the opinion that, although supply-side constraints had persisted and there were uncertainties over the COVID-19 variants, the pick-up trend in the economy had been intensifying on the back of improvement in consumer sentiment while public health measures had been lifted in stages.

As for the outlook for economic activity, members agreed that Japan's economy was likely to recover as downward pressure stemming from COVID-19 on services consumption and the effects of supply-side constraints waned, while being supported by the increase in external demand, accommodative financial conditions, and the government's economic measures. They also shared the view that, thereafter, as the virtuous cycle from income to spending intensified in the overall economy, including the household sector, the economy was projected to continue growing at a pace, albeit slower, above its potential growth rate. One member said that, with the government examining ways to encourage firms to increase wages, it was hoped that a virtuous cycle would be created where corporate activities were boosted despite continued vigilance against COVID-19 and wages and prices increased steadily without a large time lag between each other, thereby leading to active consumption behavior.

Members shared the recognition that exports and production continued to increase as a trend on the back of the recovery in overseas economies, despite remaining weak due to the effects of supply-side constraints. One member mentioned that production of automobiles had turned to an increase with the alleviation of a parts shortage stemming from the spread of COVID-19 in Southeast Asia. The member then expressed the view that exports and production were starting to move out of a temporary deceleration phase. As for the outlook, members shared the view that they were expected to increase firmly again on the back of firm expansion in global demand, particularly for digital-related goods, and the effects of supply-side constraints waning.

Members concurred that corporate profits continued to improve on the whole. One member pointed out that current profits of listed firms remained at a high level for the July-September quarter, although they were below the level of those for the previous quarter, which had marked a historical high. With regard to the effects of the rise in raw material costs, one member noted that deterioration in the terms of trade had not come to a halt. On this point, a different member expressed the recognition that, in the past when the terms of trade had deteriorated, there had been many cases where corporate profits maintained an improving trend -- albeit with variation across firm sizes and industries -- owing to an increase in the sales volume offsetting the deterioration. On this basis, the member pointed out that, in the current phase, not only the increase in the sales volume but also the rise in selling prices, particularly of export goods, due to a passing on of cost increases had contributed to the improvement in profits. In addition, one member expressed the recognition that the recent deterioration in the terms of trade was significantly attributable to the rise in international commodity prices, such as in U.S. dollar-denominated prices of crude oil, and that the effects of the yen's depreciation on it were not significant. Meanwhile, a different member expressed the view that, since Japanese firms had pushed forward with "local production for local consumption" in overseas markets, the positive effects that the yen's depreciation exerted on business performance and stock prices had become smaller compared with the past.

Members shared the recognition that business fixed investment had picked up, although weakness had been seen in some industries. As for the outlook, they shared the view that the uptrend in such investment was expected to become clear, supported by improvement in corporate profits and accommodative financial conditions. Some members expressed the recognition that the downward revision in the business fixed investment plan in the December *Tankan* was only small and that the rate of increase in the plan remained high. On this basis, one of these members noted that firms' plans showed that there was a lack of strength in software investment that leads to innovation, investment for growth areas including R&D investment, and investment by small and medium-sized nonmanufacturing firms, where many of the employees in Japan work, and that firms' deposit-hoarding mindset seemed to have persisted instead.

Members agreed that private consumption had picked up gradually, with downward pressure stemming from COVID-19, particularly on services consumption, waning somewhat. A few members pointed out that, with the number of confirmed COVID-19 cases being constrained even after the lifting of public health measures, demand for dining-out and domestic travel had recovered. On this point, one member said that business sentiment in the face-to-face services industry had improved significantly in the December *Tankan*, despite remaining at a low level. Regarding the impact of the Omicron variant, one member noted that, based on high-frequency indicators and anecdotal information from firms, there had been no sign to this point that consumer behavior had changed significantly. In relation to this, a different member expressed the view that, as people had been adapting to COVID-19, it seemed that many of them were looking at the situation calmly at the moment. In the outlook, members shared the view that private consumption was likely to recover as downward pressure stemming from COVID-19 on services consumption and the effects of supply-side constraints waned, while being supported by the government's economic measures and the materialization of pent-up demand. A few members noted that vigilance against COVID-19 remained entrenched, mainly among seniors, and people's patterns of behavior were unlikely to easily return to that seen before the pandemic, as evidenced, for example, by the number of visits to restaurants in large groups still being low. These members then expressed the view that the pace of recovery in services consumption was expected to be moderate.

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 the reduction in mobile phone charges. A few members expressed the view that, when excluding temporary factors such as the effects of the reduction in mobile phone charges, the year-on-year rate of change in the CPI had been slightly positive, and that inflationary pressure had been observed. One member said that, since producer prices continued to increase at a historically high pace, mainly on the back of the rise in raw material prices, the underlying upward pressure on consumer prices also seemed to have been increasing gradually. A different member pointed out that prices had risen recently not only for food and energy-related items but also for a wide range of items. One member noted that the weighted median and mode, both of which capture the underlying trend in the CPI, had also risen gradually.

Members agreed that inflation expectations had picked up. One member noted that, despite the widening gap between the input prices DI and the output prices DI, the December *Tankan* indicated that there were signs of changes in firms' price-setting behavior, which had been pointed out as persistently vigilant against a sales decline caused by price rises, as seen in an upward revision in firms' inflation outlook.

With regard to the outlook, members concurred that the year-on-year rate of change in the CPI was likely to increase moderately in positive territory in the short run, reflecting the rise in energy prices. They shared the recognition that, thereafter, albeit with fluctuations due to temporary factors, it was projected to increase gradually as a trend, mainly on the back of improvement in the output gap and the rise in medium- to long-term inflation expectations. One member noted that it was confirmed in the December *Tankan* that the output gap had been on an improving trend, as labor shortage had become acute and excess production capacity had been resolved. This member continued that, taking also into account the recent rises in inflation expectations and producer prices, the underlying inflationary pressure was likely to strengthen gradually. A different member expressed the view that inflation expectations, including medium- to long-term ones, had risen, and that inflationary pressure was expected to strengthen. This member continued that, as the government encouraged firms to increase wages, attention was being paid to their rates of increase for 2022 onward. Meanwhile, one member noted that achieving the price stability target by the end of fiscal

2023 was difficult given developments in the output gap and inflation expectations; however, attention was being paid to changes in firms' price-setting behavior and inflation expectations.

As for risks to economic activity and prices, members agreed that attention should continue to be paid to the course of COVID-19 following, for example, the emergence of the Omicron variant, as well as to its impact on economies at home and abroad. They shared the view that attention was also warranted on the risk that the effects of supply-side constraints would be amplified or prolonged. One member expressed the recognition that it was necessary for the time being to pay attention to the downside risks, such as the course of COVID-19 and the effects of supply-side constraints. That said, the member continued that, taking a look through fiscal 2022, the number of factors that could bring about an upward revision -- namely, the effects of the government's economic measures and signs of a recovery in production from the decline brought about by supply-side constraints -- was increasing. A few members pointed out that, if it turned out that the Omicron variant was attenuated and more people gained a sense of assurance from, for example, the rollout of booster shots and an oral antiviral medicine, there was also a risk that pent-up demand would clearly materialize and the economy would grow faster than expected. On the other hand, one member pointed out that corporate profits could be negatively affected not only by the deterioration in the terms of trade but also by logistics disruptions and prolonged supply-side constraints. This member continued that, if cost increases were not fully passed on to selling prices under the circumstances, there was an increasing risk that profits would not be distributed to capital or labor smoothly. A different member pointed to the risk that a deceleration in overseas economies would lead to a sluggish recovery of the domestic economy. Regarding risks to prices, one member expressed the recognition that, in Japan, firms had maintained their employees even during COVID-19 and thus a surge in wages, as seen in the United States, was unlikely to occur; however, there was a certain degree of risk that prices, together with the growth rate, would rise higher than expected. A different member said that the Bank had judged thus far that risks to prices were skewed to the downside, bearing in mind factors specific to Japan, such as the low tolerance of price rises and the fact that wages do not increase easily. However, the member continued that, in the next *Outlook for Economic Activity and Prices* to be released in January 2022, it was necessary to reexamine whether the current assessment would remain appropriate, considering, for example, the recent rises in inflation expectations and raw material costs.

B. Financial Developments

Members concurred that financial conditions in Japan had been accommodative on the whole, although weakness in firms' financial positions remained in some segments. With regard to those surrounding large firms, they shared the view that issuance conditions for CP and corporate bonds had been favorable, and precautionary demand for liquidity had subsided in the loan market. Regarding small and medium-sized firms, members shared the recognition that their financial positions had been on an improving trend on the whole, but weakness remained in some segments, such as the face-to-face services industry. One member expressed the recognition that financial institutions' lending attitudes remained accommodative. As for developments in loans, some members pointed out that large firms, with the exception of those in some industries, had shown indications of repaying funds borrowed for precautionary purposes. One member pointed out that the difficulties in corporate financing faced by some industries that were strongly affected by COVID-19, as well as by small and medium-sized firms, were shifting from problems of liquidity to ones of solvency. In this regard, a different member said that it was still the case that there were not a few firms raising quasi-capital funds and receiving governmental support through, for example, various subsidies. Meanwhile, members concurred that funding conditions for households in the housing loan market also remained accommodative.

III. Summary of Discussions on Monetary Policy

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

Regarding the Bank's stance on conducting monetary policy for the time being, members agreed that the three monetary easing measures -- namely, (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 -- 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, members discussed the treatment of the Special Program from April 2022 onward, which was scheduled to expire at the end of March. They shared the assessment that financial conditions in Japan had improved on the whole since implementation of the program, although these had temporarily become less accommodative immediately after the outbreak of COVID-19 in spring 2020. Regarding the current situation, one member pointed out that firms' funding environment remained accommodative on the whole without worsening substantially in tandem with business sentiment, mainly owing to measures taken by the Bank and the government as well as active responses by financial institutions. On this basis, many members, including this member, expressed the recognition that such policy responses had exerted a significant effect in achieving subsequent economic recovery and supporting prices. As a positive contribution of the Special Program, a few members pointed to the fact that the number of bankruptcies had been kept at a historically low level. A few other members expressed the recognition that, taking into account that financial conditions had improved from the situation seen immediately after the outbreak of COVID-19, part of the program -- which had been introduced as an emergency measure in response to COVID-19 -- had more or less fulfilled its intended role and should therefore head for completion.

Following this discussion, members agreed that, with regard to large firms, issuance conditions for CP and corporate bonds had been favorable and precautionary demand for liquidity had subsided in the loan market. They continued that, taking these and other factors into account, it would be appropriate for the Bank to complete as scheduled its fund-provisioning against private debt pledged as collateral, which mainly consists of debt issued by large firms and housing loans, under the Special Operations to Facilitate Financing, and its additional purchases of CP and corporate bonds. With regard to such additional purchases, a few members pointed out that it was necessary to give consideration to the measure's side effect; namely, that the formation of interest rates in accordance with firms' creditworthiness was becoming difficult, with credit spreads on CP and corporate bonds at extremely low levels. One member also said that, in addition to such effects on market functioning, it would be appropriate for the Bank to complete additional purchases in consideration of the effects on the fund management by pension funds and life insurers in particular.

Meanwhile, members shared the recognition that, regarding financial positions of small and medium-sized firms, weakness remained in some segments, such as the face-to-face services industry; taking this into account, it would be appropriate for the Bank to extend by six months the fund-provisioning to small and medium-sized firms under the Special Operations to Facilitate Financing, with a view to doing its utmost to support their financing. A few members commented that attention should be paid to the fact that, in the event of a resurgence of COVID-19, small and medium-sized firms, such as those in the face-to-face services industry, were susceptible to its negative impact, materializing in the form of, for example, a deterioration in their financial positions. Regarding the fund-provisioning against loans that financial institutions made on the back of government support ("government-supported loans") under the Special Operations to Facilitate Financing, some members noted that, with the majority of these loans consisting of effectively interest-free and unsecured ones provided by private financial institutions, credit risk was transferred to the government and new applications already had been closed for these loans. These members continued that, taking these factors into account, the Bank could revise the incentives for financial institutions to use the operations -- for example, the applied interest rate payable by the Bank to the counterparties -- when extending the implementation period. In addition, one of these members expressed the view that the Bank should make clear that the aim of the fund-provisioning against government-supported loans under the Special Operations to Facilitate Financing was to provide financing to financial institutions.

In response to the members' views, the chairman requested that the staff explain what responses could be considered regarding the specific treatment of the Special Program from April 2022 onward.

The staff provided the following explanation.

(1) Treatment of the Special Operations to Facilitate Financing could be as follows.

(a) Regarding the fund-provisioning against loans that financial institutions make on their own ("non-government-supported loans"), mainly to small and medium-sized firms, the Bank would extend the implementation period by six months, until the end of September 2022, under the current terms and conditions.

(b) Regarding the government-supported loans, mainly to small and medium-sized firms, the Bank would revise the incentives for financial institutions to use the operations and extend the implementation period by six months, until the end of September 2022, under the revised terms and conditions, with the aim of providing financing to them. The specifics were as follows.

(i) The applied interest rate for fund-provisioning under the Interest Scheme to Promote Lending would be lowered from 0.1 percent (Category II) to 0 percent (Category III).

(ii) The amount to be added to the Macro Added-on Balances in current accounts held by financial institutions at the Bank would be reduced from twice the amount outstanding of funds they received to the amount outstanding itself.

(c) The Bank would complete the fund-provisioning against private debt pledged as collateral, which mainly consists of debt issued by large firms and housing loans, at the end of March 2022 as scheduled.

(2) Treatment of purchases of CP and corporate bonds could be as follows.

(a) The Bank would complete its additional purchases of CP and corporate bonds at the end of March 2022 as scheduled.

(b) From April 2022 onward, it would purchase about the same amount of CP and corporate bonds as prior to the COVID-19 pandemic, so that the amounts outstanding of these assets would decrease gradually to the pre-pandemic levels, namely, about 2 trillion yen for CP and about 3 trillion yen for corporate bonds. An estimation given certain assumptions suggested that it would take about six months for the amount outstanding of CP and about five years for that of corporate bonds to return to pre-pandemic levels.

(c) The terms for purchases would be revised to those prior to the pandemic, as follows.

(i) The Bank would reduce the maximum amounts outstanding of a single issuer's CP and corporate bonds to be purchased from 500 billion yen to 100 billion yen and from 300 billion yen to 100 billion yen, respectively.

(ii) The Bank would reduce the maximum share of the Bank's holdings of CP and corporate bonds within the total amount outstanding of issuance by a single issuer from 50 percent to 25 percent and from 30 percent to 25 percent, respectively.

(iii) The Bank would shorten the remaining maturity of corporate bonds to be purchased from one year or more and up to five years to one year or more and up to three years.

Based on the staff's explanation, members agreed that it was appropriate for the Bank to make necessary revisions to part of the Special Program and extend in part its implementation period by six months. One member noted that it was appropriate for the Bank to revise the Special Program, which is an emergency measure, so that it would focus on financing support for small and medium-sized firms that were concerned about their financial positions. This member continued that the Bank should decide the extension of the program ahead of the end of 2021 when such firms started making their business plans for the coming year. A different member expressed the view that, given continued high uncertainties over the course of COVID-19, including the emergence of the Omicron variant, it was desirable for the Bank to decide at this meeting to extend the Special Program in part and indicate its policy stance relatively early for the next fiscal year onward, as this would give a sense of security to small and medium-sized firms as well as financial institutions supporting them.

Members also discussed how the revision of the Special Program decided at this meeting would affect, for example, the monetary base. One member noted that it was necessary to explain that the revision of the Special Program decided at this meeting would not have negative effects on economic activity and prices and would be consistent with the Bank's policy regarding expansion of the monetary base. In this respect, one member expressed the recognition that the increase in the monetary base since spring 2020 was the result of the Bank providing ample funds in response to the surge in precautionary demand for liquidity from firms and other entities due to the spread of COVID-19. This member continued that, if the impact of COVID-19 waned, the monetary base should decrease following a decline in liquidity demand. On this basis, the member said that a fluctuation in the monetary base such as this was a short-term phenomenon, and that it would remain on an uptrend in the long run if such a fluctuation was smoothed out. The member noted that the revision therefore would not be in contradiction with the inflation-overshooting commitment. A different member expressed the view that a temporary decline in the monetary base itself did not mean much because, under yield curve control, the monetary base was basically determined ex post, primarily depending on the amount of assets purchased by the Bank to guide the long-term interest rate to the target level. This member then said that the Bank should carefully explain that the Special Program was a liquidity measure taken in an emergency situation, not a macroeconomic policy measure for normal times.

Members then expressed their opinions on the Bank's basic stance on its future conduct of monetary policy. They concurred that, even after deciding to extend the Special Program in part at this meeting, the Bank for the time being would continue to closely monitor the impact of COVID-19 and would not hesitate to take additional easing measures if necessary. One member expressed the view that, if the economic situation changed significantly due to the course of the pandemic, it might become necessary for the Bank to make policy responses that went beyond facilitating corporate financing. The member continued that the Bank should clearly explain to the public that, if this became the case, it would not hesitate to take policy measures while cooperating with the government. A different member expressed the recognition that the Special Program was a measure to respond to COVID-19, and it basically should be completed when the impact of COVID-19 waned. This member then said that, even when the Bank completed the whole program in the future, this would not mean in any sense a reduction in monetary accommodation under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control; instead, it would simply mean that the Bank had finished with its responses to COVID-19. One member expressed the recognition that the inflation level currently being seen in Japan was largely due to rises in prices of crude oil and commodities, and that medium- to long-term inflation expectations had not been anchored to the price stability target of 2 percent. This member then pointed out that adjustment of monetary easing measures at this juncture was premature, as it could hinder the economic recovery from the pandemic and bring about an economic downturn and a decline in prices. A different member said that, given that price developments in Japan differed significantly from those in the United States, it was important for the Bank to persistently continue with the current accommodative monetary policy stance. Meanwhile, one member expressed the view 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. A different member noted that, in order to achieve sustainable economic growth and the price stability target, it was necessary to have an economic structure where firms' new demand for funds for investment purposes was generated and the flow of funds increased, and that it was important to carefully monitor the initiatives taken by economic entities in realizing this structure.

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.

IV. Remarks by Government Representatives

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

(1) The government recognized that the extension of the Special Program showed the Bank's stance of continuing to do its utmost to facilitate smooth corporate financing. The government had also been working to provide liquidity support, such as through the continuation of unsecured loans with reduced interest rates by the Japan Finance Corporation and other institutions.

(2) In November 2021, the government formulated the Economic Measures for Overcoming Coronavirus Infections and Opening Up a New Era, which contained policy initiatives necessary to (1) take all possible measures to respond to COVID-19 and (2) trigger a new form of capitalism and realize a virtuous cycle of growth and distribution. The supplementary budget to implement the economic measures was currently being deliberated in the Diet. In addition, the government was in the process of compiling the budget for fiscal 2022. It would also take appropriate actions based on the outline for tax reform formulated by the ruling parties on December 10, 2021, which included a proposal to significantly increase tax credit rates for firms as part of tax measures to promote wage increases.

(3) The government expected the Bank to continue to conduct appropriate monetary policy based on developments in economic activity and prices as well as financial conditions while cooperating with the government.

The representative from the Cabinet Office made the following remarks.

(1) The government would do its utmost to support the economy and address downside risks to it, and would trigger a new form of capitalism. To this end, the economic measures had been decided by the Cabinet. Specifically, the government would work not only on measures against COVID-19 but also on demand stimulus measures for a resumption of socio-economic activities and on drastic strengthening of investments in growth fields and human resources to trigger a virtuous cycle of growth and distribution.

(2) The size of the economic measures was about 56 trillion yen in terms of fiscal expenditure, including the contingency reserve, and about 79 trillion yen in terms of project scale. These measures were expected to support the economy and push up real GDP by about

5.6 percent. The government would swiftly implement them in order to put Japan's economy onto a growth path as soon as possible.

(3) The government considered that the Bank's decisions at this meeting regarding the Special Program were in line with the government's economic measures and that the Bank was making its utmost efforts to support financing, mainly of small and medium-sized firms. The government expected the Bank to continue to closely cooperate with the government and conduct appropriate monetary policy under an appropriate policy mix, taking into account the government's economic measures.

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.

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 "Amendment to 'Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)'"

Members voted unanimously to approve "Amendment to 'Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19),'" which made revisions to part of the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) and extended in part its implementation period.

D. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy, the content of which included the partial extension of the Special Program. 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).

VI. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of October 27 and 28, 2021, for release on December 22.

Attachment
December 17, 2021
Bank of Japan

Statement on Monetary Policy

1. Financial conditions in Japan have improved on the whole, despite the continued significant impact of the novel coronavirus (COVID-19) on domestic and overseas economies. With regard to financial conditions surrounding large firms, issuance conditions for CP and corporate bonds have been favorable, and precautionary demand for liquidity has subsided in the loan market. Regarding small and medium-sized firms, their financial positions have been on an improving trend on the whole, but weakness has remained in some segments, such as the face-to-face services industry. Given these developments, the Policy Board of the Bank of Japan, at the Monetary Policy Meeting held today, decided to extend the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) in part by six months until the end of September 2022, with a view to continuing to support financing, mainly of small and medium-sized firms. The details of the decisions are as follows.

   (1) Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) (a unanimous vote)

      a) Regarding the fund-provisioning against loans that financial institutions make on their own ("non-government-supported loans") in response to COVID-19, mainly to small and medium-sized firms, the Bank will extend the implementation period by six months under the current terms and conditions.

      b) Regarding the fund-provisioning against loans that financial institutions make on the back of government support ("government-supported loans") in response to COVID-19, mainly to small and medium-sized firms, the Bank will extend the implementation period by six months under the revised terms and conditions. Specifically, from April 2022 onward, this fund-provisioning will fall under Category III in the Interest Scheme to Promote Lending, for which the applied interest rate is 0 percent, and the amount to be added to the Macro Add-on Balances in current accounts held by financial institutions at the Bank will be the amount outstanding of funds they receive. In accordance with the revised terms and conditions, the Bank will continue to provide funds to financial institutions against government-supported loans they make.

c) The Bank will complete the fund-provisioning against private debt pledged as collateral, which mainly consists of debt issued by large firms and housing loans, at the end of March 2022 as scheduled.

(2) Purchases of CP and corporate bonds

The Bank will complete its additional purchases of CP and corporate bonds at the end of March 2022 as scheduled. From April 2022 onward, it will purchase about the same amount of CP and corporate bonds as prior to the COVID-19 pandemic, so that the amounts outstanding of these assets will decrease gradually to the pre-pandemic levels, namely, about 2 trillion yen for CP and about 3 trillion yen for corporate bonds.

2. The Bank decided to set the guidelines for market operations and purchases of assets other than Japanese government bonds (JGBs) as follows.

(1) Yield curve control (an 8-1 majority vote) [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 JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

(2) Guidelines for asset purchases (a unanimous vote)

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.

3. Japan's economy has picked up as a trend, although it has remained in a severe situation due to the impact of 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 as a trend, despite remaining weak due to the effects of 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 picked up gradually, with downward pressure stemming from COVID-19, particularly on services consumption, waning somewhat. Housing investment has picked up. Public investment has been relatively weak, albeit at a high level. Financial conditions have been accommodative on the whole, although weakness in firms' financial positions has remained in some segments. 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 a reduction in mobile phone charges. Meanwhile, inflation expectations have picked up.

4. Japan's economy is likely to recover as downward pressure stemming from COVID-19 on services consumption and the effects of supply-side constraints wane, while being supported by an increase in external demand, accommodative financial conditions, and the government's economic measures. Thereafter, as a virtuous cycle from income to spending intensifies in the overall economy, including the household sector, Japan's economy is projected to continue growing at a pace, albeit slower, above its potential growth rate. The year-on-year rate of change in the CPI (all items less fresh food) is likely to increase moderately in positive territory in the short run, reflecting the rise in energy prices. Thereafter, albeit with fluctuations due to temporary factors, it is projected to increase gradually as a trend, mainly on the back of improvement in the output gap and a rise in medium- to long-term inflation expectations.

5. Concerning risks to the outlook, the course of COVID-19 and its impact on domestic and overseas economies continue to warrant attention. In particular, there are high uncertainties over whether the resumption of economic activity can progress smoothly while public health is being protected. Attention also should be paid to a risk that the effects of supply-side constraints seen in some areas will be amplified or prolonged.

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.