Not to be released until 8:50 a.m. Japan Standard Time on Wednesday, March 15, 2023.

March 15, 2023
Bank of Japan

Minutes of the Monetary Policy Meeting
on January 17 and 18, 2023

(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, January 17, 2023, from 2:00 p.m. to 4:31 p.m., and on Wednesday, January 18, from 9:00 a.m. to 11:33 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. ADACHI Seiji
Mr. NAKAMURA Toyoaki
Mr. NOGUCHI Asahi
Ms. NAKAGAWA Junko
Mr. TAKATA Hajime
Mr. TAMURA Naoki

Government Representatives Present

Mr. INOUE Takahiro, State Minister of Finance, Ministry of Finance[2]
Mr. OKU Tatsuo, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]
Mr. FUJIMARU Satoshi, 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, Executive Director

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on March 9 and 10, 2023, as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Mr. Inoue, T. and Mr. Fujimaru were present on January 18.

[3] Mr. Oku and Mr. Inoue, H. were present on January 17.

Mr. NAKAMURA Koji, Director-General, Monetary Affairs Department

Mr. KAMIJO Toshiaki, Deputy Director-General, Monetary Affairs Department[4]

Mr. NAKASHIMA Motoharu, Head of Policy Planning Division, Monetary Affairs Department

Mr. MASAKI Kazuhiro, Director-General, Financial System and Bank Examination Department

Mr. FUJITA Kenji, Director-General, Financial Markets Department

Mr. OTANI Akira, 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. CHIDA Hidetsugu, Director-General, Secretariat of the Policy Board

Mr. KINOSHITA Takao, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

Mr. OTAKE Hiroki, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

Mr. NAGAE Shinichiro, Senior Economist, Monetary Affairs Department

Mr. YOSHIMURA Haruka, Senior Economist, Monetary Affairs Department

Mr. ANDO Masatoshi, Senior Economist, Monetary Affairs Department

[4] Messrs. Kamijo and Otake were present on January 17 from 2:56 p.m. to 4:31 p.m.

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

A. Market Operations in the Intermeeting Period

In accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both of which were decided at the previous meeting on December 19 and 20, 2022, the Bank had been conducting purchases of Japanese government bonds (JGBs).[6] Under the guideline for conduct of yield curve control decided at that meeting, it had also conducted outright purchases of 10-year JGBs at 0.5 percent through the fixed-rate method every business day. Moreover, the Bank had carried out fixed-rate purchase operations of the cheapest-to-deliver (CTD) issues every business day. In addition, it had nimbly increased the amount of JGB purchases for each maturity even more and conducted fixed rate purchase operations of 2-, 5-, and 20-year JGBs. Furthermore, the Bank had also conducted fund-provisioning under the Funds-Supplying Operations against Pooled Collateral with a loan duration of two years through the fixed-rate method. In this situation, 10-year JGB yields had been at around 0 percent. Looking at the shape of the JGB yield curve since the previous meeting, although distortions on the yield curve temporarily had shown signs of dissipating, they nevertheless remained, mainly as evidenced by the fact that an inverted yield curve had recently steepened in some zones.

The Bank had conducted operations to purchase exchange-traded funds (ETFs), Japan real estate investment trusts (J-REITs), CP, and corporate bonds in accordance with the guideline for asset purchases decided at the previous meeting. In addition, it had conducted the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) (the Special Operations to Facilitate Financing) to support financing, mainly of firms. Furthermore, with a view to meeting a wider range of financing needs, the Bank had conducted fund-provisioning under the Funds-Supplying Operations against Pooled Collateral with a loan duration of two weeks without setting an upper limit.

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

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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.

uncollateralized call rate had been in the range of around minus 0.014 to minus 0.071 percent; general collateral (GC) repo rates had been in the range of around minus 0.086 to minus 0.099 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had decreased somewhat.

The Tokyo Stock Price Index (TOPIX) had declined marginally. Although long-term interest rates (10-year JGB yields) had risen within the expanded range of long-term interest rate fluctuations decided at the previous meeting, they had been at around 0 percent under yield curve control. Meanwhile, turning to the yield curve, yields in the medium- to long-term zone had increased. In the foreign exchange market, the yen had appreciated against the U.S. dollar, mainly on the back of a narrowing of the yield differential between Japan and the United States; the yen had also appreciated against the euro.

C. Overseas Economic and Financial Developments

The pace of recovery in overseas economies had slowed. The Chinese economy remained under strong downward pressure, primarily for private consumption, with COVID-19 spreading nationwide. With regard to economies other than China, supply-side constraints continued to wane and this had underpinned production activities, mainly for automobiles and capital goods. In advanced economies, however, slowdowns continued to be observed on the whole, as these economies remained under downward pressure stemming from elevated inflation, policy interest rate hikes, and the impact of the situation surrounding Ukraine. Moreover, global production of IT-related goods had been somewhat weak, affected by inventory adjustments. As for the outlook, although the effects of supply-side constraints were likely to wane, overseas economies were expected to slow, albeit with variation across countries and regions, reflecting various downward pressures. There were high uncertainties regarding the outlook, such as developments in global inflationary pressure, the course of the situation surrounding Ukraine, and the impact of COVID-19 in China.

With regard to developments in overseas economies by region, the U.S. economy remained on a slowing trend, in reflection of price rises and continued policy interest rate hikes by the Federal Reserve, although firmness had been seen in private consumption. Despite downward pressure due to price rises remaining, private consumption had been firm, partly owing to the effects of discount sales, with household savings that had accumulated to date and firm labor market conditions continuing to act as underpinning factors. Housing investment had decreased in reflection of the policy interest rate hikes. Business fixed investment continued to see a small increase; however, production had been more or less flat on the whole, and business sentiment in the manufacturing industry had shown signs of deteriorating somewhat. Regarding prices, although the year-on-year rate of change in the personal consumption expenditure (PCE) deflator had decelerated from its peak, it maintained a high increase of around 5.5 percent, reflecting an acceleration in the rate of increase in services prices, within which housing rent had a large weight.

European economies had recovered moderately, but slowdowns had been observed as these economies continued to be affected by the situation surrounding Ukraine. Private consumption had seen a slowdown as the effects of the resumption of economic activity had peaked out and as a rise in inflation and policy interest rate hikes by the European Central Bank (ECB) continued. Exports and production had been more or less flat on the whole, albeit with fluctuations. Business fixed investment had improved as a trend. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) had been at a very high level of around 10 percent, mainly due to a rise in food and energy prices.

The Chinese economy had slowed, reflecting the impact of the spread of COVID-19 in the country. Private consumption had decreased due to downward pressure from the spread. Exports had decreased, mainly affected by inventory adjustments for some IT-related goods and for consumer goods in advanced economies, as well as by the production situation reflecting the spread of COVID-19. Fixed asset investment had been more or less flat on the whole; infrastructure investment had been firm, while real estate investment continued to decrease. In this situation, production had slowed, reflecting a deceleration in domestic demand, as well as the effects of corporate activities and the logistics situation.

Emerging and commodity-exporting economies other than China had picked up on the whole, albeit with weakness seen in part. The NIEs and the ASEAN economies had recovered on the whole as domestic demand continued to improve with progress in the resumption of economic activity, although exports continued to show some weakness.

With respect to overseas financial markets, long-term interest rates in the United States and Europe were more or less unchanged over the intermeeting period, albeit with some fluctuations in response to such factors as economic and price indicators. As for stock prices in advanced economies, those in Europe had increased significantly, mainly on the back of diminished concern over energy supplies during this winter, and those in the United

States had also risen. Currencies in emerging economies had appreciated, reflecting the easing of the zero-COVID policy by the Chinese government and price rises of commodities such as nonferrous metals. Crude oil prices had risen over the intermeeting period.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy, despite being affected by factors such as high commodity prices, had picked up as the resumption of economic activity had progressed while public health had been protected from COVID-19. Regarding the outlook, the economy was likely to recover, with the impact of COVID-19 and supply-side constraints waning, although it was expected to be under downward pressure stemming from high commodity prices and slowdowns in overseas economies.

Exports and production had increased as a trend, with the effects of supply-side constraints waning. Developments in real exports by goods were as follows. Exports of automobile-related goods had increased moderately, as the tightness in global supply and demand conditions for semiconductors used in automobiles had gradually eased on the whole. Exports of capital goods had increased, supported by high levels of order backlogs, although orders for semiconductor production equipment, for example, had seen a pause. In contrast, exports of IT-related goods had been somewhat weak on the whole, with stronger adjustment pressure on electronic parts such as semiconductors for smartphones and for personal computers, although demand for automobile-related goods had been firm. Regarding the outlook, exports and production were likely to follow an uptrend, supported by the waning of supply-side constraints and high levels of order backlogs for automobiles and capital goods, although they were expected to be affected by the slowdowns in overseas economies.

Corporate profits had been at high levels on the whole. Business sentiment was more or less unchanged. Business fixed investment had increased moderately. With the effects of supply-side constraints waning, the aggregate supply of capital goods -- a coincident indicator of machinery investment -- had increased, albeit with fluctuations, mainly led by digital- and labor saving-related investments. Private construction completed (nonresidential) -- a coincident indicator of construction investment -- had increased moderately, mainly due to a rise in construction of logistics facilities on the back of an expansion in e-commerce and to progress in urban redevelopment projects. With regard to the outlook, as corporate profits remained at high levels on the whole, business fixed investment was expected to continue increasing, mainly on the back of accommodative financial conditions. Looking at leading indicators of such investment, machinery orders (private sector, excluding orders for ships and those from electric power companies) and construction starts (in terms of planned expenses for private and nonresidential construction) had both increased, albeit with fluctuations.

Private consumption had increased moderately, despite being affected by COVID-19. The consumption activity index (CAI; real, travel balance adjusted) remained more or less flat for the July-September quarter of 2022, despite being affected by the COVID-19 resurgence. It then increased for the October-November period relative to that quarter, mainly for services consumption, as the resumption of consumption activities had progressed while public health had been protected, and as the government's domestic travel discount program had made a positive contribution. By type, albeit with fluctuations that had mainly resulted from weather conditions, consumption of durable goods had picked up moderately, mainly due to the waning of supply-side constraints. Consumption of nondurable goods had increased, mainly for clothes. Services consumption had increased, underpinned by the government's domestic travel discount program.

Looking at developments in private consumption since December 2022 based on anecdotal information from firms and high-frequency indicators, it seemed to have been on a moderate uptrend, although prices kept rising and the number of confirmed new cases of COVID-19 had followed an increasing trend. However, firms continued to share their views that households' defensive attitudes toward spending, such as shifting to cheaper products and lower-end stores, had been intensifying gradually, and some firms had expressed their concerns that the impact of the decline in households' real income could heighten going forward. Looking at confidence indicators related to private consumption, the consumer confidence index bounced back marginally in December 2022 for the first time in four months, mainly on the back of improvement in the employment situation. However, it had been at a low level, particularly in terms of consumer perception of "overall livelihood," with attention being given to price rises. Regarding the outlook, although private consumption was expected to be under downward pressure from the real income side due to price rises, it was projected to continue increasing. This was mainly because pent-up demand was likely to materialize, supported by household savings that had accumulated as a result of pandemic-related restrictions, as the resumption of consumption activities progressed further while public health was being protected.

The employment and income situation had improved moderately on the whole. Regarding the number of employed persons in the *Labour Force Survey*, that of regular employees had followed a moderate uptrend, mainly in the medical, healthcare, and welfare services industry, as well as the information and communications industry, both of which had faced a severe labor shortage. When fluctuations were smoothed out, the number of non-regular employees had followed a moderate uptrend, mainly in the face-to-face services industry, as well as the medical, healthcare, and welfare services industry. Total cash earnings per employee had increased moderately, reflecting the pick-up in overall economic activity. With regard to the outlook, nominal employee income was likely to continue increasing along with economic improvement. In real terms, however, the year-on-year rate of change in employee income was projected to be negative for the time being, reflecting price rises.

As for prices, international commodity prices had been more or less flat on the whole, at a level that had declined substantially compared to a while ago, because concern over a global economic slowdown had weighed on them. The rate of change in the producer price index (PPI) relative to three months earlier continued to be relatively high, reflecting past developments in international commodity prices and foreign exchange rate developments. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) had been in the range of 3.5-4.0 percent due to rises in prices of such items as energy, food, and durable goods. Inflation expectations had risen. Specifically, short-term expectations had increased. Medium- to long-term expectations had also risen moderately. With regard to the outlook, the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be relatively high in the short run due to the effects of a pass-through to consumer prices of cost increases led by a rise in import prices. It was then expected to decelerate toward the middle of fiscal 2023 due to a waning of these effects, as well as to the effects of pushing down energy prices from the government's economic measures.

2. Financial environment

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

Firms' demand for funds had risen moderately as demand for working capital had increased in reflection of a pick-up in economic activity and raw material cost increases. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuance conditions for CP had been favorable. Those for corporate bonds also had been favorable on the whole, although issuance spreads had expanded. However, it was too early to make an assessment of issuance conditions for corporate bonds since the previous meeting, partly because issuance of corporate bonds was seasonally less active through the year-end and New Year holidays. Firms' funding costs had been hovering at extremely low levels. Looking at developments in various lending rates since the previous meeting, for housing loans, the applied interest rates on floating-rate loans, which accounted for a large share, were unchanged. The interest rates on fixed-rate housing loans had been raised gradually during the course of 2022; since the previous meeting, moves by some financial institutions to raise the rates had been observed, reflecting developments in JGB yields. For loans to firms, the applied interest rates on floating-rate loans, which accounted for about half of the loans, were unchanged. Although interest rates that would be newly applied to fixed-rate loans could be raised in the future, the effects were likely to be limited at this point. 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 3 percent and around 4 percent, respectively; their amounts outstanding remained at high levels. The number of bankruptcies of firms had been at a low level. Firms' financial positions continued on an improving trend, including for small and medium-sized firms, on the back of the pick-up in the economy, although weakness remained in some segments.

The year-on-year rate of change in the monetary base had been negative, as the amount outstanding of funds provided through the Special Operations to Facilitate Financing had decreased. That in the money stock had been positive, in the range of 3.0-3.5 percent.

3. Financial system

Japan's financial system was maintaining stability on the whole.

Profits of major banks and regional banks had been firm, mainly due to a rise in net interest income on the back of a rise in loans outstanding and to an increase in income from fees and commissions, although realized gains/losses on securities holdings had deteriorated, reflecting the rise in overseas interest rates. Profits of *shinkin* banks had decreased relative to the previous year, mainly due to a decline in net interest income, in addition to deterioration in realized gains/losses on securities holdings. For all types of banks, their credit costs had been at low levels on the whole. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

The effects that the policy decision made at the previous meeting would have on net interest income of financial institutions seemed to be limited for the time being, considering the type of loans and their term structure, as well as developments in the lending rates since the previous meeting. Realized gains/losses on securities holdings seemed to have deteriorated for regional banks and *shinkin* banks -- for which the duration of yen-denominated bond holdings was relatively long -- compared with major banks. Nevertheless, all types of financial institutions kept sufficient equity capital on the whole, and it did not appear that problems would arise in terms of their financial intermediation function.

With regard to the financial cycle, of the 14 Financial Activity Indexes (FAIXs) that comprise the heat map in the *Financial System Report*, three -- including one indicating the amount of financial institutions' credit relative to real economic activity -- showed deviations from the trends toward overheating. Nevertheless, this was mainly the result of active support by financial institutions toward corporate financing and the fact that firms had secured ample funds, and therefore did not signal any overheating of financial activities. However, it was necessary to continue paying close attention to whether the amount of credit extended by financial institutions would not significantly deviate from real economic activity.

II. Extension of the Duration of the Fund-Provisioning Measure to Stimulate Bank Lending

A. Staff Report

The amount outstanding of loans disbursed under the Fund-Provisioning Measure to Stimulate Bank Lending kept increasing moderately; the measure thus continued to contribute to keeping financial conditions accommodative. With a view to continuing to encourage financial institutions' efforts to stimulate bank lending, the Bank could amend the Principal Terms and Conditions for the Loan Support Program and other related rules and extend by one year the deadline for loan disbursements under the measure.

B. Discussion by the Policy Board and Vote

Members voted unanimously to approve the amendment. It was confirmed that this would be made public after the meeting.

III. Establishment of Special Rules for Financial Cooperatives regarding the Funds-Supplying Operations to Support Financing for Climate Change Responses

A. Staff Report

With a view to supporting a wide range of private sector efforts on climate change, the staff proposed that the Bank introduce a framework for enabling financial institutions that do not have a current account at the Bank to use the Funds-Supplying Operations to Support Financing for Climate Change Responses through their central organizations. Specifically, the staff proposed that the Bank establish the Special Rules for Member Financial Institutions of Central Organizations of Financial Cooperatives to Use the Funds-Supplying Operations to Support Financing for Climate Change Responses.

B. Discussion by the Policy Board and Vote

Members voted unanimously to approve the proposal. It was confirmed that this would be made public after the meeting.

IV. Enhancement of the Funds-Supplying Operations against Pooled Collateral

A. Staff Report

With a view to encouraging the formation of a yield curve that is consistent with the guideline for market operations by providing funds more flexibly, the staff proposed that the Bank enhance the Funds-Supplying Operations against Pooled Collateral. Specifically, they proposed that the Bank amend the Principal Terms and Conditions for Funds-Supplying Operations against Pooled Collateral and other related rules, so that it could (1) change the duration of loans disbursed through the variable-rate method from within one year to within 10 years, and (2) change the interest rate on loans disbursed through the fixed-rate method from 0 percent to a rate that could be determined by the Bank at each loan disbursement in order to encourage the formation of a yield curve that is consistent with the guideline for market operations, taking into account market prices of JGBs for each maturity.

B. Discussion by the Policy Board and Vote

Members shared the view that the enhancement of the Funds-Supplying Operations against Pooled Collateral would enable the Bank to encourage the decline in longer-term interest rates not only in the spot but also in other markets through arbitrage transactions by financial institutions that used the operations, without directly affecting supply and demand conditions of cash JGBs. In addition, they shared the recognition that it was appropriate for the Bank to conduct market operations while effectively taking advantage of both JGB purchases and the operations. A few members said that it was necessary to carefully monitor loan disbursements under the operations at the Monetary Policy Meetings as well.

Members voted unanimously to approve the proposal. It was confirmed that this would be made public after the meeting.

V. Summary of Discussions by the Policy Board on Economic and Financial Developments and the January 2023 *Outlook for Economic Activity and Prices*

A. Current Situation of Economic Activity and Prices

With regard to global financial and capital markets, members shared the view that market sentiment remained cautious, as attention had been drawn to uncertainties surrounding monetary tightening by central banks in the United States and Europe and to a slowdown in the global economy.

Members agreed that the pace of recovery in overseas economies had slowed. A few members expressed the recognition that, although the slowing trend in economic activity had strengthened on the whole, overseas economies had been resilient thus far.

With regard to overseas economies by region, members shared the recognition that the U.S. economy remained on a slowing trend, in reflection of price rises and continued policy interest rate hikes by the Federal Reserve, although firmness had been seen in private consumption. Many members expressed the recognition that, even though inflation rates had decelerated, the rates of increase in wages and services prices remained high in the United States amid continued tight labor market conditions. These members continued that, therefore, it was highly likely to take some time to curb high inflation. Some members expressed the view that some economic data had indicated a slowdown in the U.S. economy due to the effects of policy interest rate hikes, and thus there was a growing possibility that it could avoid a hard landing.

Members shared the view that European economies had recovered moderately, but slowdowns had been observed as these economies continued to be affected by the situation surrounding Ukraine. Some members expressed the view that the slowdown in economic activity in Europe was highly likely to continue as the ECB kept raising policy interest rates significantly. On the other hand, a few members pointed out that these economies could possibly pick up since concern over energy supplies had diminished.

Members agreed that the Chinese economy had slowed, reflecting the impact of the spread of COVID-19 in the country. A few members expressed the view that the outlook for the economy was extremely unclear because an increase in the number of confirmed cases and a sluggish real estate market, for example, had pushed down economic activity. One of these members noted that the stagnant economy could persist due to such factors as the prolonged high unemployment rate among youth and a decrease in foreign investment to China owing to geopolitical risks. On the other hand, some members expressed the view that, if the resumption of economic activity became full-fledged as the spread of COVID-19 subsided, economic activity could be pushed up, reflecting the shift from the zero-COVID policy.

Members shared the recognition that emerging and commodity-exporting economies other than China had picked up on the whole, albeit with weakness seen in part. One member said that, although there remained concern over risks such as globally elevated inflation, the deterioration in fiscal conditions and political developments, as well as capital outflows stemming from these factors, such risks had not materialized substantially so far, and thus the economic situation had been relatively stable.

Members agreed that financial conditions in Japan had been accommodative on the whole, although weakness in firms' financial positions remained in some segments. In addition, they shared the recognition that firms' funding costs had been hovering at extremely low levels, and that the environment for external funding had been favorable on the whole. In relation to this, one member noted that, in assessing financial conditions, it was necessary to continue examining the effects that the modification of the conduct of yield curve control decided at the previous meeting had on factors such as funding costs. On this basis, this member expressed the view that, at this point, given the overall picture that included the funding structure -- such as the shares of floating-rate loans and fixed-rate loans in total loans -- it could be assessed that financial conditions remained accommodative on the whole.

Moreover, a few members, while noting that the available data were limited because issuance of corporate bonds was less active during this period, said that anecdotal information from firms suggested a possible impact of investors' vigilance for the future on the issuing conditions of corporate bonds, as well as the possibility that issuance conditions would improve given that the environment for funding had been favorable on the whole.

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

With regard to economic activity, members shared the view that Japan's economy, despite being affected by factors such as high commodity prices, had picked up as the resumption of economic activity had progressed while public health had been protected from COVID-19. Some members expressed the view that the economy continued to pick up, led by domestic demand; specifically, a recovery in services demand and a virtuous cycle in the corporate sector had become the driving forces.

Members agreed that exports and production had increased as a trend, with the effects of supply-side constraints waning. However, one member expressed the view that exports and production had leveled off somewhat due to a continuing shortage of some semiconductors and a decelerating trend in overseas economies that had intensified further.

Members shared the recognition that business fixed investment had increased moderately with corporate profits being at high levels on the whole. A few members expressed the recognition that the appetite for business fixed investment had been resilient; this was because there was a need to promote the digital transformation in response to labor shortage, and also because there was growing momentum among Japanese manufacturers to transfer their production sites back home. A few members noted that accommodative financial conditions had supported business fixed investment through lower real interest rates.

Members agreed that private consumption had increased moderately, despite being affected by COVID-19. A few members noted that services demand had increased clearly, partly owing to the effects of the government's measures, such as the domestic travel discount program and the easing of COVID-19 border controls. One member expressed the view that services demand remained firm even in the midst of the eighth wave of COVID-19.

Members concurred that the employment and income situation had improved moderately on the whole. Some members expressed the recognition that, with labor shortage becoming more acute, an increasing number of firms had shown an active stance toward raising wages. On the other hand, a few members pointed out that, although the momentum for wage hikes had grown, especially among large firms, a cautious stance toward raising wages had been observed, mainly among firms that had faced severe business conditions. One member mentioned that some firms had responded to inflation during the previous fiscal year by paying one-time allowances. Given this, the member noted the need for support from macroeconomic policy since it would take time for wages to see a sustained increase.

As for prices, members agreed that the year-on-year rate of change in the CPI (all items less fresh food) had been in the range of 3.5-4.0 percent due to rises in prices of such items as energy, food, and durable goods. One member said that, in order to achieve the price stability target of 2 percent, a shift to demand-pull inflation was necessary, and that developments in the inflation rate for general services warranted close monitoring. A different member noted that the pace of rises in prices of not only goods but also services was accelerating gradually. This member then pointed out that there had been observed price hikes due not only to rises in raw material prices, but also increases in items such as utility costs. Members concurred that inflation expectations had risen.

B. Outlook for Economic Activity and Prices

In formulating the January 2023 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), members discussed the baseline scenario of the outlook for Japan's economic activity. They concurred that, toward the middle of the projection period, Japan's economy was likely to recover -- with the impact of COVID-19 and supply-side constraints waning and with support from accommodative financial conditions and the government's economic measures -- although it was expected to be under downward pressure stemming from high commodity prices and slowdowns in overseas economies. Members shared the recognition that, from the middle of the projection period, Japan's economy was projected to continue growing at a pace above its potential growth rate as a virtuous cycle from income to spending intensified gradually in the overall economy. One member said that a positive stance had been observed among firms toward raising wages, as well as toward passing on cost increases to selling prices, and that this might lead to a virtuous cycle between economic activity and prices through a boost to corporate profits.

Members shared the view that overseas economies were expected to slow toward the middle of the projection period, albeit with variation across countries and regions, and pick up thereafter. However, one member noted that attention should be paid to the point that heightened vigilance on future developments in overseas economies had been observed among business managers.

Members agreed that Japan's exports and production were likely to remain on an uptrend with the effects of supply-side constraints waning and with support from high levels of order backlogs for automobiles and capital goods, although they were expected to be affected by the slowdowns in overseas economies. They shared the view that inbound tourism demand, which is categorized under services exports, was also expected to increase, mainly in reflection of the government's relaxation of entry restrictions. One member said that the number of Chinese tourists -- which had accounted for around 30 percent of the number of inbound visitors to Japan before the pandemic -- was likely to recover in the second half of the projection period.

Members concurred that, as corporate profits remained at high levels on the whole, business fixed investment was expected to continue increasing, including investment to address labor shortage, digital-related investment, research and development (R&D) investment related to growth areas and decarbonization, and investment associated with strengthening supply chains, mainly on the back of accommodative financial conditions. One member noted that uncertainties regarding the future course of the global economy could delay the implementation of business fixed investment.

Members agreed that, although private consumption was expected to be under downward pressure from the real income side due to price rises, it was projected to continue increasing. They said that this was mainly because pent-up demand was likely to materialize, supported by household savings that had accumulated as a result of pandemic-related restrictions, as the resumption of consumption activities progressed further while public health was being protected. In addition, members shared the recognition that private consumption was also likely to be underpinned by the government's measures to reduce the household burden of higher gasoline prices, electricity charges, and manufactured and piped gas charges, and by its domestic travel discount program. They shared the view that, from the middle of the projection period, private consumption was expected to keep increasing steadily, although the materialization of pent-up demand was likely to slow. One member pointed out that pent-up demand was likely to run out and an increase in household burden, such as through high prices, could constrain the pace of recovery in consumption.

Members shared the view that employee income was projected to continue increasing moderately. They said that this was on the back of the fact that, in addition to the increase in the number of regular employees, a rise in the number of non-regular employees was likely to become evident with a recovery in the face-to-face services sector, and that wage growth was expected to increase, reflecting tightening labor market conditions and price rises. One member expressed the recognition that momentum for wage hikes had been rising due to labor shortages becoming more acute, and noted that, to achieve sustained wage increases, it was necessary to transform the wage profile into one that was based on job type and performance. The member then continued that efforts to reform the wage and personnel system were a factor that warranted attention in the annual spring labor-management wage negotiations in 2023. A few members pointed out that uncertainties over the outlook for overseas economies, for example, could have a negative impact on the negotiations.

Based on this discussion, members concurred that, comparing the projections with those in the October 2022 Outlook Report, the projected growth rates for fiscal 2022 and 2023 were somewhat lower, mainly due to overseas economies deviating downward from the previous baseline scenario, although the government's economic measures were likely to make a positive contribution to the growth rates. They agreed that the projected growth rate for fiscal 2024 was somewhat lower due to a waning of the effects of those measures pushing up the economy of the previous year.

Members then discussed the baseline scenario of the outlook for Japan's price developments. Members agreed that the year-on-year rate of change in the CPI (all items less fresh food) was likely to be relatively high in the short run due to the effects of a pass-through to consumer prices of cost increases led by a rise in import prices. They continued that the rate of increase was then expected to decelerate toward the middle of fiscal 2023 due to a waning of these effects, as well as to the effects of pushing down energy prices from the government's economic measures. Members shared the view that, thereafter, it was projected to accelerate again moderately on the back of improvement in the output gap, rises in medium- to long-term inflation expectations and in wage growth, and a waning of the effects of the economic measures pushing down energy prices toward the middle of fiscal 2023. One member commented that, in order to achieve the price stability target of 2 percent, it was necessary that underlying inflation, particularly for services, rise sufficiently in reflection of nominal wage increases. Most members expressed the view that, on a fiscal-year basis, the year-on-year rate of increase in the CPI was highly likely to be below 2 percent from fiscal 2023. One member noted that, with Japan's economy being resilient, upward pressure on consumer prices was projected to remain, since past rises in raw material prices were likely to be passed on to consumer prices with a lag. A different member pointed out that, according to the December 2022 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), firms' outlook for output prices had been higher than that for general prices for one year ahead, and this indicated that firms' stance had shifted toward actively raising their selling prices. On this basis, the member expressed the view that the inflation rate was highly likely to remain relatively elevated, taking into account factors such as firms' pass-through of cost increases to selling prices being underway and the continuing inflation momentum. In response to this, one member said that a pass-through to selling prices of cost increases was expected to peak out in the second half of 2023, considering such factors as developments in international commodity prices and foreign exchange markets. A different member commented that the year-on-year rate of increase in the import price index had decelerated clearly, and upward pressure of costs, which had driven price rises, had started to wane. The member then pointed out that the year-on-year rate of increase in the CPI was projected to decelerate clearly, taking also into account that the effects of the government's measures to reduce the household burden of higher electricity charges and of higher manufactured and piped gas charges would be added.

With regard to the CPI (all items less fresh food and energy), which is not directly affected by such fluctuations in energy prices, many members expressed the view that the year-on-year rate of change was projected to be at around 2 percent for fiscal 2022, in the range of 1.5-2.0 percent for fiscal 2023, and at around 1.5 percent for fiscal 2024.

As background factors to this outlook for prices, members shared the view that the output gap, which captures the utilization of labor and capital, was currently marginally negative; however, with Japan's economy following a growth path that outpaced its potential growth rate, the gap was projected to turn positive around the second half of fiscal 2022 and then continue to expand moderately. In addition, they concurred that medium- to long-term inflation expectations had risen, albeit at a moderate pace relative to short-term ones. On this basis, members shared the view that, given that the formation of inflation expectations in

Japan was largely adaptive, an increase in actual inflation was expected to bring about a rise in households' and firms' medium- to long-term inflation expectations and, through changes in firms' price- and wage-setting behavior and in labor-management wage negotiations, lead to a sustained rise in prices accompanied by wage increases. One member said that progress in the pass-through of cost increases had led to improvement in corporate profits through the effects of developing new products and to active wage hikes and investment. This member continued that, in this situation, a virtuous cycle had started to operate somewhat, in which such developments brought about further improvement in profits and additional wage hikes through higher employee engagement and through creating innovation, and thus monitoring such structural changes had become important.

Based on these discussions, members agreed that, compared with the projections in the October 2022 Outlook Report, the projected rates of increase in the CPI for fiscal 2022 and 2023 were more or less unchanged, as effects such as those of a pass-through to consumer prices of cost increases led by a rise in import prices were likely to offset the effects of pushing down energy prices from the economic measures; as for the projected rate of increase for fiscal 2024, it was somewhat higher due to a waning of the effects of those measures pushing down energy prices of the previous year.

Meanwhile, members also exchanged views regarding <u>the financial conditions</u> on which the outlook for economic activity and prices was based. They shared the recognition that such conditions were likely to remain accommodative as the Bank pursued Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, and that this was expected to support an increase in private demand.

Members then discussed <u>upside and downside risks to economic activity and prices</u>.

First, concerning <u>risks to economic activity</u>, members concurred that attention was warranted on developments in overseas economic activity and prices and in global financial and capital markets. One member said that the pace of a pick-up in Japan's economy could slow given high uncertainties regarding factors such as developments in overseas economies. Members shared the recognition that, although inflation rates, such as in the United States, were lower than a while ago, inflationary pressure remained on a global basis; in this situation, overseas central banks continued to raise their policy interest rates, and there was concern in global financial and capital markets over whether it was possible to contain inflation and maintain economic growth simultaneously. On this point, some members -- noting that the

U.S. labor market remained tight and the core CPI inflation continued to be elevated -- commented that there were risks of protracted high inflation and a subsequent significant slowdown in the economy. One of these members added that it was necessary to pay attention to the cumulative impact of policy interest rate hikes implemented to date as the effects of monetary tightening came with a time lag. Members shared the view that, with central banks continuing to make policy interest rate hikes, there was a risk that global financial conditions would tighten further through adjustments in asset prices, fluctuations in foreign exchange markets, and capital outflows from emerging economies, and that this would eventually lead to overseas economies deviating downward from the baseline scenario. On this basis, they concurred that it was necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices.

In addition, members agreed that developments in the situation surrounding Ukraine and the associated developments in prices of commodities, including grains, warranted attention. Specifically, they shared the view that, depending on the course of this situation, overseas economies, particularly the euro area, could be pushed down further. They continued that, although prices of commodities, including grains, had declined on the whole after reaching their peak around the middle of 2022, they could rise again depending on, for example, developments in the situation surrounding Ukraine. One member pointed out that commodity prices could face upward pressure if production activities in China saw a full-fledged recovery. Members said that, given that Japan is an importer of commodities, including grains, a rise in these prices due to supply factors puts greater downward pressure on the economy through an increase in import costs. They then shared the recognition that business fixed investment and private consumption could deviate downward from the baseline scenario through more cautious spending behavior of firms and households, induced by the deterioration in the terms of trade due to the rise in prices of commodities, including grains. On the other hand, members concurred that, if these prices saw a clearer downtrend, the economy could deviate upward.

Furthermore, members agreed that attention was warranted on how COVID-19 at home and abroad would affect private consumption and firms' export and production activities. They shared the recognition that, although COVID-19 had resurged in Japan since autumn 2022, private consumption had increased moderately thus far -- supported by pent-up demand, especially for services consumption -- and the resumption of consumption activities had progressed steadily while public health had been protected; that said, depending on the course of COVID-19, upward pressure from pent-up demand could weaken by more than expected. On the other hand, members shared the view that, if vigilance against COVID-19 lessened significantly, household savings that had accumulated as a result of pandemic-related restrictions could be withdrawn by more than expected and private consumption could be pushed up. Members also shared the recognition that supply-side constraints remained in part, and if COVID-19 resurged at home and abroad in this situation, such constraints could intensify again through, for example, supply-chain disruptions. They continued that this could in turn push down Japan's exports and production and the adverse impact could even spill over to goods consumption and business fixed investment.

Moreover, as a risk factor considered from a somewhat long-term perspective, members agreed that firms' and households' medium- to long-term growth expectations warranted attention. Members shared the view that efforts made in view of the post-COVID-19 era, digitalization, and decarbonization were expected to change Japan's economic structure and people's working styles, and that the heightened geopolitical risks could change the trend of globalization, which had supported the growth of the global economy to date. They continued that, depending on how firms and households would react to these changes, their medium- to long-term growth expectations, the potential growth rate, and the output gap could go either upward or downward. One member commented that efforts toward increasing resilience against higher energy prices in order for firms to realize sustainable growth were necessary, and that attention needed to be paid to how such efforts would be brought to the fore.

Regarding risks to prices, members shared the view that, if the aforementioned risks to economic activity materialized, prices would be affected. On this basis, they also discussed risks specific to prices.

Members concurred that there were high uncertainties over firms' price- and wage-setting behavior, which could exert either upward or downward pressure on prices. That is, they agreed that, depending on how much upward pressure would be exerted by raw material costs and on how firms' inflation expectations would develop, the pass-through of cost increases could accelerate by more than expected and lead prices to deviate upward from the baseline scenario; in addition, there was a possibility that wages and prices would rise by more than expected as more firms reflected price developments in wage setting through labor-management wage negotiations. On the other hand, members shared the view that there was a risk that moves to increase wages would not strengthen as much as expected and prices would deviate downward from the baseline scenario, as the behavior and mindset based on the assumption that prices and wages would not increase easily were deeply entrenched in Japan. One member noted that the significant price shocks since 2022 stemming from overseas developments could change the norm for prices and that the effects of such a change could last for several years. On the other hand, a different member pointed out that, although the norm seemed to have been changing recently, it was highly uncertain whether that would continue even after the peaking-out of the considerable rise in import prices.

As another risk specific to prices, members agreed that future developments in foreign exchange rates and international commodity prices, as well as the extent to which such developments would spread to import and domestic prices, might lead prices to deviate either upward or downward from the baseline scenario. Members shared the view that fluctuations in international commodity prices had been significant, reflecting high uncertainties over, for example, developments in the situation surrounding Ukraine, while inflation rates remained high on a global basis and foreign exchange markets had fluctuated sharply. They continued that how these factors would affect Japan's prices required due attention. Meanwhile, one member expressed the view that firms' moves to restructure supply chains, taking into account geopolitical risks, could create upward pressure on prices.

With regard to the risk balance, members agreed that risks to economic activity were skewed to the downside for fiscal 2022 and 2023 but were generally balanced for fiscal 2024. They also concurred that risks to prices were skewed to the upside.

As one of the risks considered most relevant to the conduct of monetary policy, members discussed developments in Japan's financial system. They agreed that it was maintaining stability on the whole. Members shared the view that, although attention was warranted on, for example, the impact of the tightening of global financial conditions, the financial system was likely to remain highly robust on the whole even in the case of an adjustment in the real economy at home and abroad and in global financial and capital markets, mainly because financial institutions had sufficient capital bases. One member said that vigilance was required against the risk of, for example, unwinding of highly-leveraged positions of the non-bank financial sector taking place in global financial and capital markets. Members shared the recognition that, from a longer-term perspective, if downward pressure on financial institutions' profits became prolonged, there would be risks of both a gradual pullback in financial intermediation activities and of increased vulnerability of the financial system, mainly due to the search for yield behavior; however, these risks were not significant at this point.

VI. Summary of Discussions on Monetary Policy

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

With regard to the Bank's basic stance on its future conduct of monetary policy, members agreed that, given developments in economic activity and prices, it was important to continue with the current monetary easing -- including the conduct of yield curve control -- and thereby achieve the price stability target in a sustainable and stable manner accompanied by wage increases. One member, noting that there was still a long way to go to achieve the price stability target, expressed the view that it was important for the Bank to continue with the current monetary easing and thereby firmly support the economy and realize a favorable environment for firms to raise wages. A different member added that, in order to encourage firms' efforts with regard to business transformation until sustained wage increases could be expected, the Bank needed to curb interest rate rises across the entire yield curve while paying attention to the functioning of bond markets. Meanwhile, one member expressed the recognition that it was appropriate to continue with monetary easing at this point, although it was necessary to examine and assess the balance between positive effects and side effects at some point in future. In addition, a different member expressed the opinion that, while it was appropriate for the Bank to conduct monetary policy in the future with various possible options in mind, it was inappropriate to rush to an exit from the current monetary policy because overseas economies were currently heading toward slowdowns. On this basis, the member expressed the view that, since fund management and financing continued to be based on the assumption that interest rates would remain low for a long period, in the future phase of an exit from the current monetary policy, it would be necessary to examine where the risks associated with a rise in interest rates lay and whether market participants were well prepared.

With respect to yield curve control, members shared the recognition that long-term interest rates had been at around 0 percent, in line with the guideline for market operations, as the Bank had devised various ways of conducting market operations. That said, many members pointed out that the distortions on the yield curve had not necessarily dissipated yet. One of these members expressed the view that it might take some time for the market to calm down and for market functioning to recover. On this point, some members expressed the opinion that it was appropriate for the Bank to curb interest rate rises across the entire yield curve through measures such as increasing the amount of JGB purchases and enhancing the Funds-Supplying Operations against Pooled Collateral. One member expressed the recognition that, in addition to the current large-scale JGB purchases, enhancement of the Funds-Supplying Operations against Pooled Collateral was a scheme that contributed to stable formation of the yield curve. A few members expected that continuing with nimble conduct of market operations while making use of the enhanced Funds-Supplying Operations against Pooled Collateral would improve market functioning. One member said that it was important for the Bank to conduct appropriate market operations while taking improvement in market functioning into consideration, and to humbly and carefully follow developments in factors such as the shape of the yield curve, conditions in market functioning including liquidity, and corporate bond market conditions. Many members shared the recognition that it was necessary for the Bank to take more time to examine the effects that the modification of the conduct of yield curve control would have on market functioning. One member noted that some market participants were expecting that further modification of the conduct of yield curve control would take place; however, if the Bank modified its conduct again soon after the previous modification, this could in turn make the future conduct of monetary policy unclear. A different member added that it might be appropriate for the Bank to closely examine conditions in market functioning and then discuss the conduct of yield curve control if necessary.

Members also discussed the Bank's communication to the public with respect to monetary policy conduct. Some members pointed out that fluctuations in price indices tended to be superficially large for the time being because of such factors as the government's measures to curb high energy prices. These members then noted that it was important for the Bank to analyze and assess not only developments in price indices but also the mechanism behind the underlying trend in prices and its sustainability, and to clearly explain this to the public. One member added that the Bank should carefully explain that it needed to continue with monetary easing, that its accommodative monetary policy stance had not been changed, and that it would take time to achieve the price stability target of 2 percent in a sustainable and stable manner because wage increases had not yet become full-fledged. In addition, some members said that the Bank's intention to decide on modifying the conduct of yield curve control at the previous meeting might not yet have been fully conveyed considering that some market participants had pointed out that such modification was inconsistent with the Bank's communication to date and that it was effectively a policy interest rate hike. On this point, some members expressed the recognition that the Bank should carefully explain again that the modification decided at the previous meeting was a measure aimed solely at making monetary easing more sustainable through improvement in the functioning of financial markets, and that the Bank needed to continue with the current yield curve control given developments in economic activity and prices. One member said that it was true that the effects of monetary easing could possibly decrease in terms of long-term interest rates rising as a result of allowing a wider range of fluctuations from the target level. The member continued, however, that the effects of monetary easing had actually increased, since inflation expectations had risen and real interest rates had declined throughout 2022, and the negative effects that could be brought about by the wider range of fluctuations would be smaller compared with the past. Based on this, the member added that it was necessary for the Bank to continue to carefully explain that policy decisions had been made by weighing positive and side effects of monetary easing. A different member said that the Bank should also continue to communicate to the public that, at the previous meeting, it maintained its accommodative monetary policy stance by deciding to increase the amount of JGB purchases while expanding the range of 10-year JGB yield fluctuations from the target level.

Based on the above discussions, regarding the guideline for market operations for the intermeeting period, members agreed 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. In this regard, members continued that, in conducting yield curve control, it was appropriate that the Bank continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level and offer to purchase 10-year JGBs at 0.5 percent every business day for an unlimited amount through the fixed-rate method, unless it was highly likely that no bids would be submitted. They also agreed that, in order to encourage the formation of a yield curve that was consistent with the aforementioned guideline for market operations, it was appropriate that the Bank continue with large-scale JGB purchases and make nimble responses for each maturity by increasing the amount of JGB purchases and conducting fixed-rate purchase operations.

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 at about the same pace as prior to the COVID-19 pandemic, so that their amounts outstanding would gradually return to pre-pandemic levels, namely, about 2 trillion yen for CP and about 3 trillion yen for corporate bonds. In adjusting the amount outstanding of corporate bonds, the Bank would give due consideration to their issuance conditions.

With respect to the future conduct of monetary policy, members shared the view that the Bank 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.

Regarding its policy stance for the time being, members agreed that, while closely monitoring the impact of COVID-19, the Bank would support financing, mainly of firms, and maintain stability in financial markets, and would not hesitate to take additional easing measures if necessary. Based on this, they shared the view that, as for policy rates, the Bank would expect short- and long-term interest rates to remain at their present or lower levels.

VII. Remarks by Government Representatives

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

(1) The government was preparing to submit the budget for fiscal 2023 to the upcoming ordinary session of the Diet. With this budget, it aimed to pave the way to solving important issues at home and abroad that Japan faced -- such as the fundamental

reinforcement of defense capabilities, child-related policy, and promotion of the green transformation -- and to carve out a future path for the country.

(2) The government would work to obtain approval from the Diet for the fiscal 2023 budget at the earliest possible time so that it could do its utmost with regard to economic and fiscal management.

(3) The government expected the Bank to conduct appropriate monetary policy toward achieving the price stability target in a sustainable and stable manner, based on consideration of 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 Japanese economy had picked up moderately. However, a slowing down of overseas economies was a downside risk to the Japanese economy, amid ongoing global monetary tightening and other factors. Also, full attention should be given to the effects of such factors as price increases, supply-side constraints, and fluctuations in the financial and capital markets, as well as the course of COVID-19 in China.

(2) The government would implement swiftly and steadily the comprehensive economic measures and the second supplementary budget for fiscal 2022, so as to sufficiently address the downside risks to Japan's economy and put it on a sustainable growth path led by private demand.

(3) The government expected the Bank to continue to conduct appropriate monetary policy toward achieving the price stability target in a sustainable and stable manner, based on due consideration of developments in economic activity and prices as well as financial conditions, while closely cooperating with the government.

VIII. Votes

A. Vote on the Guideline for Market Operations

Based on the above discussions, to reflect the 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 unanimous vote.

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

1. 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.

2. With regard to the above guideline for market operations, the Bank, in conducting yield curve control, will continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level, and will offer to purchase 10-year JGBs at 0.5 percent every business day for an unlimited amount through the fixed-rate method, unless it is highly likely that no bids will be submitted. In order to encourage the formation of a yield curve that is consistent with the above guideline for market operations, the Bank will continue with large-scale JGB purchases and make nimble responses for each maturity by increasing the amount of JGB purchases and conducting fixed-rate purchase operations.

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

Votes against the proposal: None.

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 at about the same pace as prior to the COVID-19 pandemic, so that their amounts outstanding will gradually return to pre-pandemic levels, namely, about 2 trillion yen for CP and about 3 trillion yen for corporate bonds. In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. ADACHI Seiji, Mr. NAKAMURA Toyoaki, Mr. NOGUCHI Asahi, Ms. NAKAGAWA Junko, Mr. TAKATA Hajime, and Mr. TAMURA Naoki.
Votes against the proposal: None.

C. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. The chairman formulated the Statement on Monetary Policy and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment).

IX. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the January 2023 Outlook Report (consisting of "The Bank's View" and "The Background"). To reflect the view of the members, the chairman formulated a proposal on "The Bank's View" and put it to a vote. The Policy Board decided the text of "The Bank's View" by a unanimous vote. It was confirmed that "The Bank's View" would be released immediately after the meeting. It also was confirmed that the full text of the Outlook Report would be made public on January 19.

X. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of December 19 and 20, 2022, for release on January 23, 2023.

Attachment
January 18, 2023
Bank of Japan

Statement on Monetary Policy

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

(1) Yield curve control (a unanimous vote)

a) The Bank decided to set the following guideline for market operations for the intermeeting period.

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.

b) Conduct of yield curve control

The Bank will continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level, and will offer to purchase 10-year JGBs at 0.5 percent every business day through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted. In order to encourage the formation of a yield curve that is consistent with the above guideline for market operations, the Bank will continue with large-scale JGB purchases and make nimble responses for each maturity by increasing the amount of JGB purchases and conducting fixed-rate purchase operations.

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

With regard to asset purchases other than JGB purchases, the Bank decided 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 at about the same pace as prior to the novel coronavirus (COVID-19) pandemic, so that their amounts outstanding will gradually return to pre-pandemic levels, namely, about 2 trillion yen for CP and about 3 trillion yen for corporate bonds. In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.

2. The Bank decided, by unanimous votes, to (1) extend by one year the deadline for loan disbursement under the Fund-Provisioning Measure to Stimulate Bank Lending, (2) expand the range of eligible counterparties for the Funds-Supplying Operations to Support Financing for Climate Change Responses to include member financial institutions of central organizations of financial cooperatives, and (3) enhance the Funds-Supplying Operations against Pooled Collateral.

3. The Bank will continue with Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner. It will continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2 percent and stays above the target in a stable manner.

   For the time being, while closely monitoring the impact of COVID-19, the Bank will support financing, mainly of firms, and maintain stability in financial markets, and will not hesitate to take additional easing measures if necessary; it also expects short- and long-term policy interest rates to remain at their present or lower levels.