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June 22, 2022

Bank of Japan

Minutes of the Monetary Policy Meeting

on April 27 and 28, 2022

(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 Wednesday, April 27, 2022, from 2:00 p.m. to 3:52 p.m., and on Thursday, April 28, from 9:00 a.m. to 12:02 p.m.[1]

Policy Board Members Present

Mr. KURODA Haruhiko, Chairman, Governor of the Bank of Japan
Mr. AMAMIYA Masayoshi, Deputy Governor of the Bank of Japan
Mr. WAKATABE Masazumi, Deputy Governor of the Bank of Japan
Mr. 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
Mr. YAMADA Yasuhiro, Executive Director
Ms. SHIMIZU Tokiko, Executive Director (Assistant Governor)
Mr. KAIZUKA Masaaki, 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 June 16 and 17, 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 April 28.
[3] Messrs. Ono and Inoue were present on April 27.

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

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

Mr. MASAKI Kazuhiro, Director-General, Financial System and Bank Examination 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. KINOSHITA Takao, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

Mr. NAGAE Shinichiro, Senior Economist, Monetary Affairs Department

Mr. ANDO Masatoshi, Senior Economist, Monetary Affairs Department

Mr. KADOGAWA Yoichi, Senior Economist, Monetary Affairs Department

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

A. Market Operations in the Intermeeting Period

In accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both of which were decided at the previous meeting on March 17 and 18, 2022, the Bank had been conducting purchases of Japanese government bonds (JGBs).[5] In this situation, 10-year JGB yields had been at around 0 percent, and the shape of the JGB yield curve had been consistent with the guideline for market operations. Meanwhile, the Bank had conducted outright purchases of 10-year JGBs through, for example, the fixed-rate method for several consecutive days (fixed-rate purchase operations for consecutive days) when upward pressure on 10-year JGB yields had increased, mainly reflecting developments in U.S. interest rates.

With a view to supporting financing, mainly of firms, and maintaining stability in financial markets, the Bank had taken the following measures: (1) 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), with the completion at the end of March 2022 of additional purchases of CP and corporate bonds and fund-provisioning against private debt pledged as collateral under the Special Operations to Facilitate Financing; (2) flexible provision of ample funds, mainly through purchases of JGBs and conduct of the U.S. dollar funds-supplying operations; and (3) purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments generally had been in negative territory. With regard to interest rates on overnight instruments, the uncollateralized call rate had been in the range of around minus 0.004 to minus 0.020 percent. General collateral (GC) repo rates had been in the range of around minus 0.083 to minus

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

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

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

0.264 percent while temporarily showing a somewhat significant decline, mainly because demand from securities companies for the purpose of inventory financing had weakened in reflection of the increase in the Bank's JGB purchases. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been more or less flat.

The Tokyo Stock Price Index (TOPIX), in line with stock prices in the United States and Europe, was more or less unchanged from the level observed at the time of the previous meeting. Long-term interest rates in Japan had been at around 0 percent under yield curve control, although they had temporarily been subject to increased upward pressure reflecting, for example, developments in such rates in the United States. In the foreign exchange market, the yen had been depreciating against the U.S. dollar, mainly due to the rise in U.S. interest rates and growing purchases of U.S. dollars by Japanese importers because of high commodity prices. It also had been depreciating against the euro, reflecting the rise in European interest rates.

C. Overseas Economic and Financial Developments

Overseas economies had recovered on the whole, albeit with variation across countries and regions. In the wake of the situation surrounding Ukraine, inflationary pressure from a rise in commodity and grain prices had intensified globally, and the effects -- mainly of a reduction in Russia-related trade and of delays and disruptions in logistics -- had been observed in part. In China, where COVID-19 cases had been increasing, restrictions had been imposed on operations at factories and ports in some regions due to strict public health measures, thereby having a wider impact on supply-side constraints through supply chains. These developments had been exerting downward pressure on global economic activity; however, on the whole, with the impact of COVID-19 waning, business sentiment continued to improve and production of the manufacturing industry and trade volume maintained their uptrend. As for the outlook, despite downward pressure from the situation surrounding Ukraine, overseas economies were likely to continue recovering on the whole, as the impact of COVID-19 waned gradually. That said, there were extremely high uncertainties, mainly over developments in the situation surrounding Ukraine and their impact on overseas economies and global financial and capital markets.

With regard to developments in overseas economies by region, the U.S. economy had recovered. Private consumption continued to increase, amid the withdrawal of accumulated savings and the materialization of pent-up demand. While the number of employees continued to rise, the degree of tightness in the labor market had been increasing further, with the labor force participation rate recovering at only a moderate pace and the job openings-to-applicants ratio and turnover rates remaining high. As for the corporate sector, sentiment kept improving and fixed investment continued to increase. Regarding price developments, the personal consumption expenditure (PCE) deflator had marked a high increase of around 6.5 percent on a year-on-year basis, mainly due to the effects of the tight supply-demand conditions in the goods market.

The European economy had recovered as a trend. Despite downward pressure from a rise in energy prices, private consumption had recovered as a trend, particularly for services consumption, on the back of continued resumption of economic activity. With regard to the corporate sector, in a situation where sentiment kept improving, fixed investment had risen. As for prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) had increased clearly in positive territory, mainly reflecting the rise in energy prices, and had reached around 7.5 percent.

The Chinese economy had recovered as a trend, but the pace of improvement remained slow. Private consumption had decelerated, pushed down by a rapid spread of COVID-19 and the resultant strict public health measures. In terms of corporate activity, although downward pressure had been exerted on some segments, partly stemming from disruptions in logistics due to the strict public health measures, production had picked up as a trend with power supply issues being generally resolved. Fixed asset investment had picked up, reflecting a boost in infrastructure investment.

Emerging economies other than China had picked up on the whole, although some economies had been pushed down by the situation surrounding Ukraine. The NIEs and the ASEAN countries had recovered because exports continued to increase and domestic demand kept improving with the impact of COVID-19 waning.

With respect to overseas financial markets, long-term interest rates in advanced economies had risen significantly against the background of some improvement in investors' risk sentiment, which had deteriorated considerably in reflection of the situation surrounding Ukraine, as well as expectations for an earlier-than-anticipated normalization of monetary policy, mainly in the United States. Stock prices were more or less unchanged from those observed at the time of the previous meeting; they had increased temporarily due to improvement in risk sentiment, but then turned to a decline, particularly for IT-related stocks, reflecting the rise in long-term interest rates. Despite prospects of a decline in demand from China, crude oil prices had been at high levels amid lingering concern over a reduction in supply from Russia. With regard to currencies in emerging economies in the foreign exchange market, the Russian ruble had rebounded, partly due to the effects of capital controls, whereas currencies in Latin America, which had appreciated on the back of high commodity prices, had turned to depreciation recently.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had picked up as a trend, although some weakness had been seen in part, mainly due to the impact of COVID-19 and the rise in commodity prices. Regarding the outlook, the economy was likely to recover, with the impact of COVID-19 and supply-side constraints waning and with support from an increase in external demand, accommodative financial conditions, and the government's economic measures, although it was expected to be under downward pressure stemming from the rise in commodity prices due to factors such as the situation surrounding Ukraine.

Exports and industrial production continued to increase as a trend on the back of the recovery in overseas economies, despite the remaining effects of supply-side constraints. Developments in real exports by goods were as follows. IT-related exports had increased, as exports of goods such as semiconductors for smartphones and data centers had been solid. Exports of capital goods had also increased, albeit with fluctuations, supported by steady machinery investment on a global basis and by strong demand for semiconductor production equipment that reflected the expansion in demand for digital-related goods. On the other hand, exports of automobile-related goods had picked up only moderately because the global supply and demand conditions for semiconductors remained tight and parts procurement difficulties had intensified temporarily due, for example, to the spread of COVID-19 in Japan. With regard to the outlook, exports and industrial production were likely to continue increasing, mainly for automobile-related goods, for which the effects of supply-side constraints were expected to wane, and for digital-related goods, which had seen an expansion in global demand. This was based on the projection that overseas economies would continue recovering on the whole, despite downward pressure from the situation surrounding Ukraine.

Corporate profits had improved on the whole, but business sentiment had seen a pause in its improvement recently, mainly due to the impact of COVID-19 and the rise in commodity prices. The diffusion index (DI) for business conditions for all industries and enterprises in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) had deteriorated slightly for March 2022 after having improved for six consecutive quarters.

Business fixed investment had picked up, although weakness had been seen in some industries. With regard to the outlook, as corporate profits remained at high levels on the whole despite being pushed down by the impact of the rise in commodity prices, an uptrend in business fixed investment was expected to become clear on the back of accommodative financial conditions and the waning of supply-side constraints. Looking at leading indicators of business fixed investment, machinery orders (private sector, excluding orders for ships and those from electric power companies) had increased, albeit with fluctuations, and construction starts (in terms of planned expenses for private and nonresidential construction) had picked up when fluctuations were smoothed out. Looking at the business fixed investment plan in the March *Tankan*, business fixed investment -- including software and research and development (R&D) investments but excluding land purchasing expenses, for all industries and enterprises including financial institutions -- saw a year-on-year rate of increase of 4.9 percent for fiscal 2021, registering clearly positive growth. The plan for fiscal 2022 showed that the rate of increase was expected to be 3.7 percent, indicating a relatively high increase compared with the average of the past March *Tankan* surveys.

Private consumption had decreased temporarily due to the impact of a resurgence of COVID-19 at the beginning of 2022, but started picking up again, with downward pressure stemming from COVID-19, particularly on services consumption, waning. The consumption activity index (CAI; real, travel balance adjusted) had increased clearly for the October-December quarter of 2021, but that for the January-February period declined by 3.8 percent relative to the October-December quarter due to the effects of the rapid spread of the Omicron variant and the resultant implementation of priority measures to prevent the spread of disease. While durable goods had been relatively weak on the whole with the effects of supply-side constraints remaining, nondurable goods had been more or less flat on average. Services consumption, particularly of dining-out and domestic travel, had decreased.

Looking at recent developments in private consumption based on anecdotal information from firms and high-frequency indicators, services consumption appeared to have picked up again since the second half of February, when the number of confirmed new cases turned to a decline. Goods consumption seemed to have been firm on the whole; sales of clothes and personal effects had recovered gradually, although durable goods consumption continued to be affected by supply-side constraints. Looking at confidence indicators related to private consumption, however, while the waning impact of COVID-19 had contributed to improvement, rises in energy and food prices resulting from the situation surrounding Ukraine had started to create downward pressure. Regarding the outlook, private consumption was expected to be pushed down by deterioration in real income due to rises in energy and food prices. However, it was projected to recover, particularly led by the materialization of pent-up demand, as the situation with COVID-19 improved and as the resumption of economic activity progressed gradually while public health was being protected, mainly due to the widespread vaccinations and the rollout of antiviral medicines.

The employment and income situation remained relatively weak on the whole, although improvement had been seen in some parts. The number of employed persons in the *Labour Force Survey* remained at a relatively low level, mainly for non-regular employees in the face-to-face services industry. With regard to labor market conditions, although the labor force participation rate and unemployment rate remained more or less flat, the employment conditions DI in the *Tankan* continued to show an increase in net "insufficient." Total cash earnings per employee, particularly scheduled cash earnings, had increased moderately, reflecting a pick-up in overall economic activity. With regard to the outlook, employee income was likely to continue increasing moderately on the back of economic improvement and see a clear rise in its level.

As for prices, international commodity prices had been at high levels against the background of remaining supply concerns that stemmed from the situation surrounding Ukraine. 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), despite being affected by the reduction in mobile phone charges, had been in the range of 0.5-1.0 percent, reflecting price rises in energy and other items. That in the CPI (all items less fresh food and energy) had been at around 1 percent when excluding temporary factors such as the effects of the reduction in mobile phone charges. Meanwhile, inflation expectations, particularly short-term ones, had risen. Specifically, short-term inflation expectations had increased clearly on the whole, mainly due to the effects of the recent rise in commodity prices. Medium- to long-term expectations had also risen, albeit at a moderate pace relative to short-term ones. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to increase temporarily to around 2 percent due to the impact of the significant rise in energy prices and a pass-through of raw material cost increases to food in particular, with the effects of the reduction in mobile phone charges dissipating.

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 precautionary demand for liquidity due to the impact of COVID-19 had generally subsided, although demand for working capital had been seen, reflecting 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 the effects of increased market volatility remained in part. 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 around 9 percent, respectively; their amounts outstanding remained at high levels. The environment for external funding was still 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 had been on an improving trend on the whole on the back of the pick-up in Japan's economy, regardless of the fact that weakness remained, particularly for firms in industries susceptible to the impact of COVID-19 as well as for small and medium-sized ones, and that financial positions had been affected by raw material cost increases recently.

The year-on-year rate of change in the monetary base, while declining compared with a while ago, had been positive, at around 8 percent recently. That in the money stock also remained positive, at around 3.5 percent.

3. Financial system

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

Profits of major banks had been firm, mainly due to the loans outstanding being at a high level and to an increase in net income from fees and commissions. Their credit costs had been at low levels. Their capital adequacy ratios had been more or less flat. Profits of regional banks had also been firm, mainly owing to the amount outstanding of loans related to COVID-19 being at a high level. Their credit costs had been at low levels. Their capital adequacy ratios were more or less unchanged.

With regard to the financial cycle, of the 14 Financial Activity Indexes (FAIXs) that comprise the heat map in the *Financial System Report*, four -- 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 financial institutions responding to demand for working capital, particularly by firms, which had increased due to the impact of COVID-19, and therefore did not signal any overheating of financial activities. It was necessary to continue paying close attention to whether debt repayment would proceed along with recovery in corporate profits and the amount of credit extended by financial institutions would return to a level consistent with real economic activity.

II. Summary of Discussions by the Policy Board on Economic and Financial Developments and the April 2022 *Outlook for Economic Activity and Prices*

A. Current Situation of Economic Activity and Prices

With regard to global financial markets, members shared the view that long-term interest rates in the United States and Europe had risen and the yen had been depreciating in the foreign exchange market, as there was a growing perception that the Federal Reserve would accelerate the pace of policy rate hikes amid continued high uncertainties over the situation surrounding Ukraine. One member expressed the recognition that market participants seemed to have been sensitive to the risk that stronger-than-expected monetary tightening would become necessary, especially in the United States, where inflation remained elevated, thereby leading to instability in overseas economies and global financial and capital markets. A different member expressed the view that, given the expanding trend in the size of balance sheets of the U.S. financial sector, monetary tightening in the United States could have a larger impact than that observed during the past phases of tightening, and that this impact warranted close monitoring. One member said that, taking into account the case of the Russian sovereign debt crisis in the late 1990s, it was necessary to be vigilant regarding whether or not unexpected tail risks would arise in global financial and capital markets due to the recent situation surrounding Russia and Ukraine.

Members concurred that overseas economies had recovered on the whole, albeit with variation across countries and regions. One member pointed out that economic activity had been boosted in the United States and Europe with further easing of public health measures. A different member expressed the view that, even though the U.S. and European central banks had started to shift their policy focus from supporting their economies amid the COVID-19 pandemic to curbing inflation, the economic recovery continued to be observed. Meanwhile, many members expressed the recognition that downward pressure on overseas economies had been intensifying due, for example, to the situation surrounding Ukraine, elevated inflation, prolonged supply-side constraints resulting mainly from China's strict public health measures, and tightening of financial conditions.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had recovered. One member expressed the view that, because current inflation in the United States was predominantly demand-pull, monetary tightening was an appropriate response, but its adverse impact on economic activity would materialize with a lag of 12 to 18 months.

Members shared the view that the European economy had recovered as a trend. Some members noted that the economy had been facing downward pressure from the rise in energy prices. One of these members commented that real wages had been pushed down because the pace of wage increases had been lagging behind a surge in prices.

Members agreed that the Chinese economy had recovered as a trend, but the pace of improvement remained slow. One member pointed out that, while the boost in infrastructure investment and resolution of power supply issues were contributing to economic improvement, the so-called zero-COVID policy was highly likely to push down the economy through a weakening of demand, an intensification of supply-side constraints, and a decline in growth expectations. A different member said that downward pressure on the economy from the zero-COVID policy was strong, and that attention should be paid to the fact that, reflecting the delay in account auditing, the disclosure of corporate results had been postponed among major firms in the real estate sector, where adjustments had been observed recently.

Members shared the recognition that emerging economies other than China had picked up on the whole. One member noted that moves toward living with COVID-19 had been seen in the ASEAN countries and India.

Members concurred that <u>financial conditions in Japan</u> had been accommodative on the whole, although weakness in firms' financial positions remained in some segments. One member expressed the view that the environment for external funding remained accommodative on the whole.

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

With regard to <u>economic activity</u>, members shared the view that the economy had picked up as a trend, although some weakness had been seen in part, mainly due to the impact of COVID-19 and the rise in commodity prices. One member expressed the opinion that, despite being affected, for example, by developments in overseas economies and supply-side constraints, the virtuous cycle from income to spending had been maintained. A different member said that the recent rise in commodity prices had led to deterioration in the terms of trade and a decline in households' purchasing power, and the main reason for this was a rise in import prices in contract currency terms, which was different from price rises due to the yen's depreciation. The member continued that this fact should be clearly communicated to the public.

Members agreed that exports and production continued to increase as a trend on the back of the recovery in overseas economies, despite the remaining effects of supply-side constraints. On this basis, a few members pointed out that the effects of supply-side constraints arising mainly from the semiconductor shortage had been prolonged.

Members shared the recognition that business fixed investment had picked up, although weakness had been seen in some industries.

Members agreed that private consumption had started picking up again, with downward pressure stemming from COVID-19, particularly on services consumption, waning. Some members expressed the view that, since the lifting of priority measures to prevent the spread of disease in late March, the number of people going out and traveling had increased. However, one of these members noted that reservations for travel had been made mainly for the near term, up to the long holiday period from end-April through early May, as vigilance against COVID-19 lingered. A few members expressed the recognition that private consumption in Japan continued to be significantly affected by the situation with COVID-19.

As for prices, members agreed that the year-on-year rate of change in the CPI (all items less fresh food), despite being affected by the reduction in mobile phone charges, had been in the range of 0.5-1.0 percent, reflecting price rises in energy and other items. One member expressed the view that moves to pass on the rise in import prices to selling prices had been spreading, mainly among food. A different member said that, while the current pass-through of cost increases had been triggered by an exogenous factor of the rise in commodity prices, such developments had not been seen during the deflationary period. One member expressed the recognition that firms' moves that aimed at raising the unit sales prices by increasing value-added had been spreading among not only food but also electrical appliances. Nevertheless, many members expressed the view that underlying inflation, measured by the CPI excluding such factors as energy, remained relatively low. One of these members commented that Japan had seen upswings in prices due to the rise in energy prices, but the situation had not been one of elevated inflation accompanied by an increase in domestic demand, as observed in Europe and the United States. A different member expressed the recognition that, while Japan was currently facing low inflation and rising commodity prices simultaneously, underlying inflation had not risen with the output gap being negative and both GDP and employment not having returned to pre-pandemic levels. One member expressed the view that such factors as the difficulty in passing on cost increases to selling prices and a delay in the recovery of consumption amid the COVID-19 pandemic had led to curbing a rise in the CPI relative to the increase in the PPI.

Members agreed that inflation expectations, particularly short-term ones, had risen. One member expressed the recognition that the spillover effects on medium- to long-term inflation expectations, which are regarded as having a relatively large impact on wages, remained dull.

B. Outlook for Economic Activity and Prices

In formulating the April 2022 *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, from the beginning to 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 the increase in external demand, accommodative financial conditions, and the government's economic measures, although it was expected to be under downward pressure stemming from the rise in commodity prices due to factors such as the situation surrounding Ukraine. One member expressed the view that, while Japan's growth rate was projected to be pushed down by a slowdown in overseas economies due to the situation surrounding Ukraine and by an outflow of income from Japan reflecting rising commodity prices, the economy was expected to maintain relatively high growth for the time being because pent-up demand, partly backed by "forced savings," was likely to continue materializing with the impact of COVID-19 and supply-side constraints waning. Members shared the recognition that -- from the middle of the projection period -- the economy was projected to continue growing, albeit more slowly, at a pace above its potential growth rate, as the negative impact of high commodity prices waned and the virtuous cycle from income to spending intensified gradually in the overall economy. One member presented the view that the pace of economic growth would decelerate, reflecting the peaking-out of pent-up demand, but that the virtuous cycle from income to spending would intensify gradually as the outflow of income due to high commodity prices came to a halt.

Members concurred that overseas economies were likely to continue recovering on the whole for the time being, despite downward pressure from the situation surrounding Ukraine. They also shared the view that, thereafter, growth in overseas economies was projected to stay at around the long-term average. Members agreed that Japan's exports and production were likely to increase, mainly for automobile-related goods, for which the effects of supply-side constraints were expected to wane, and for digital-related goods, which had seen the expansion in global demand.

Members concurred that an uptrend in business fixed investment was likely to become clear as corporate profits remained at high levels on the whole, accommodative financial conditions provided support, and supply-side constraints waned, although weakness was projected to remain for the time being in investment by the face-to-face services sector. One member expressed the recognition that the business fixed investment plan for fiscal 2022 in the March *Tankan* showed that the year-on-year rate of change in business fixed investment was likely to be positive; however, such investment had lacked strength, in that the figures had only recovered to pre-pandemic levels, with small enterprises in particular experiencing a sluggish recovery. Members shared the view that business fixed investment was expected to continue increasing from the middle of the projection period, including machinery investment to address labor shortage, digital-related investment, and R&D investment related to growth areas and decarbonization.

Members agreed that private consumption was projected to recover, particularly led by the materialization of pent-up demand, as the situation with COVID-19 improved and as the resumption of consumption activity progressed while public health was being protected, mainly due to the widespread vaccinations and the rollout of antiviral medicines. They also shared the view that, thereafter, private consumption was expected to keep increasing steadily, mainly supported by a rise in employee income, although the materialization of pent-up demand was likely to slow. One member expressed the view that, although attention should be paid, for example, to deterioration in households' sentiment due to recent price rises, private consumption was expected to pick up, mainly for travel-related consumption, as the environment was becoming favorable for pent-up demand to materialize. A different member said that the recovery in Japan's private consumption had lagged behind the increase in demand in the United States and Europe, which had materialized since 2021. In this regard, the member continued that there was room for consumption activity in Japan to expand because it had been constrained for more than two years. One member expressed the view that, unless the COVID-19 pandemic was completely overcome, the pace of recovery in private consumption was likely to be only moderate as services consumption continued to be restrained, particularly among seniors, who had been persistently vigilant against COVID-19.

Members shared the view that employee income was likely to continue increasing moderately on the back of a rise in the number of non-regular employees associated with a recovery in the face-to-face services sector and of an increase in wage inflation that mainly reflected tightening labor market conditions and price rises. A few members pointed out that the outcome of the annual spring labor-management wage negotiations suggested that the base pay rise for fiscal 2022 was somewhat larger than that in the past few years. However, one of these members said that it was highly likely that the wage increases would not fully cover inflation for fiscal 2022, and thus it was crucial that further wage increases be made in fiscal 2023 onward. One member expressed the view that upward pressure on wages was expected to strengthen amid intensified labor shortage since services consumption was likely to recover while the increase in labor supply of women and seniors was projected to generally peak out.

Based on this discussion, members agreed that, comparing the projections with those in the January 2022 Outlook Report, the projected economic growth rates for fiscal 2021 and 2022 were lower due to the effects of such factors as the resurgence of COVID-19, the rise in commodity prices, and the slowdown in overseas economies, but the rate for fiscal 2023 was higher, partly owing to a rebound from the lower projection in the previous fiscal year.

Members then discussed the baseline scenario of the outlook for Japan's price developments. They agreed that, due to the significant rise in energy prices, the year-on-year rate of change in the CPI (all items less fresh food) was likely to increase temporarily to around 2 percent in fiscal 2022, when the effects of the reduction in mobile phone charges dissipated; thereafter, however, the rate of increase was expected to decelerate because the positive contribution of the rise in energy prices to the CPI was likely to wane. One member expressed the view that the year-on-year rate of change in the CPI was projected to be at around 2 percent in the first half of fiscal 2022, due mainly to the effects of a surge in commodity prices. A different member was of the view that the year-on-year rate of change in the CPI was likely to be at around 2 percent for the time being from April, but a rate of increase that exceeded 2 percent was unlikely to be sustained given the household budget constraints. One member expressed the opinion that, although the possibility of the CPI inflation rate reaching 2 percent had increased, the rise in inflation was due to higher import prices and therefore would be only temporary. The member continued that achieving the price stability target in a stable manner was difficult given developments in the output gap and inflation expectations.

In terms of inflation excluding energy, for which prices fluctuate significantly, members shared the view that the year-on-year rate of change in the CPI (all items less fresh food and energy) was expected to moderately increase in positive territory on the back of improvement in the output gap, rises in medium- to long-term inflation expectations and wage inflation, and partly also of the pass-through of raw material cost increases to food in particular. One member expressed the view that the underlying inflation rate was likely to rise moderately due to increasing moves by firms to pass on the surge in commodity prices to retail prices, changes in firms' and households' mindset regarding prices, and a possible strengthening of upward pressure on wages amid intensifying labor shortage. A different member also said that the underlying inflation rate was projected to increase gradually toward 2 percent, as price rises became observed in a wider range of items, including for services, on the back of improvement in the output gap and tightening labor market conditions. One member expressed the view that the underlying inflation rate was expected to increase gradually with inflation shifting from cost-push to demand-pull. On this basis, the member continued that, in a situation where developments in headline and underlying CPI inflation had diverged significantly due to fluctuations in energy prices, it was appropriate for the Bank to present specific forecasts of the CPI excluding fresh food and energy in its Outlook Report and carefully explain its assessment of the outlook for this CPI. A different member expressed the recognition that, in conducting monetary policy, it was important to capture the underlying trend in inflation, rather than temporary price fluctuations. The member then noted that, with a view to explaining this point to the public, it was appropriate that the Bank present its forecasts of the CPI that excluded fresh food and energy.

As background to this outlook for prices, members shared the view that the output gap -- which captures the utilization of labor and capital -- had been negative recently; however, with the economy following a growth path that outpaced its potential growth rate, it was projected to turn clearly 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, with the pass-through of cost increases and a rise in selling prices becoming widely observed, particularly for goods, households' and firms' medium- to long-term inflation expectations were likely to rise further through the adaptive formation mechanism and this was expected to bring about a wider range of price rises, including for services, and an increase in wage inflation. One member drew attention to how norms for prices and wages -- including inflation expectations and wage inflation -- would change in light of the current inflation caused by supply shocks. A different member commented that, for sustained wage and price increases, it was important that large firms' moves, especially to increase wages, spread to small and medium-sized firms nationwide. The member continued that, in this context, the recovery in the number of people going out, developments in domestic investment, and efforts to strengthen growth potential should be closely monitored. One member pointed out that households' perceived inflation rate might have risen at a faster pace than the actual rate of change in the CPI. The member then said that, since a pessimistic view on positive inflation could prevail among households as the pace of wage increases had not caught up with the pace of increase in perceived inflation, it was necessary for the Bank to be more careful than before in communicating to the public regarding price developments and monetary policy.

Based on this discussion, members agreed that, compared with the previous projections in the January 2022 Outlook Report, the projected rate of increase in the CPI for fiscal 2022 was significantly higher, mainly reflecting the impact of the rise in energy prices.

Meanwhile, members also exchanged views regarding the financial conditions on which the above 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 upside and downside risks to economic activity and prices.

First, concerning risks to economic activity, members concurred that the impact of COVID-19 on private consumption, as well as on firms' export and production activities, warranted attention. In particular, they shared the recognition that there seemed to be persistent vigilance against COVID-19 by Japanese households, particularly seniors; in this situation, if people became less willing to go out, for example, due to factors such as the spread of highly contagious new variants, there was a risk that the materialization of pent-up demand would be delayed and private consumption would be pushed down. On the other hand, members shared the view that, if people's vigilance against COVID-19 lessened significantly with the widespread vaccinations and the rollout of antiviral medicines, 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. In the meantime, they shared the recognition that, with global supply and demand conditions for digital-related goods such as semiconductors remaining tight, if supply-side constraints became prolonged and amplified due, for example, to the resurgence of COVID-19 at home and abroad, the resultant strict public health measures in some countries and regions, and the consequent supply-chain disruptions, then Japan's exports and production could be pushed down and the adverse impact could even spill over to goods consumption and business fixed investment. On this point, many members pointed out that the strict public health measures implemented in China recently could amplify global supply-side constraints, including the effects on Japan's automobile production and other industries.

In addition, members agreed that developments in commodity prices warranted attention. Specifically, members shared the recognition that the rise in commodity prices due to supply factors puts greater downward pressure on economies of commodity importers like Japan through an increase in import costs. They continued that, for this reason, if high commodity prices persisted, Japan's economy could deviate downward from the baseline scenario through deterioration in the terms of trade. On the other hand, members shared the view that, if these prices declined significantly on the back of, for example, an easing of geopolitical tensions, the economy could deviate upward through improvement in the terms of trade. One member said that in Ukraine -- a major producer of wheat -- sufficient cropping had become difficult due to the war and that in China -- the world's largest producer and consumer of wheat -- authorities had warned of the possibility that this year's winter harvest would be the poorest in its history. The member pointed out that, taking into account these factors and the surge in fertilizer prices, there was a risk that upward pressure would continue to be exerted on food prices.

As for other risks, members agreed that attention should also be warranted on developments in global financial and capital markets and in overseas economies. Specifically, they shared the recognition that the following risks should be considered in particular: (1) the risk that, amid concern over acceleration in the pace of reduction in monetary accommodation -- mainly for advanced economies facing a continued rise in inflation -- global financial conditions could tighten by more than expected through, for example, adjustments in risk asset prices and capital outflows from emerging economies; (2) the risk that, depending on the course of the situation surrounding Ukraine, overseas economies, particularly the euro area, which has strong economic relations with Russia and Ukraine, could be pushed down; and (3) the risk that signs of a slowdown in the Chinese economy, for which medium- to long-term growth potential had been declining gradually, would become clearer due, for example, to adjustments in its real estate sector. With regard to the effects of reduced monetary accommodation in advanced economies, some members pointed out that attention should be paid to the downside risks to the economy in the event that policy rate hikes, for the time being, were conducted at an accelerated pace. These members noted that, in addition to this, attention was warranted on the risk that, if -- from a somewhat long-term perspective -- the effects of the reduction in monetary accommodation were not sufficient enough in curbing inflation, more aggressive tightening would consequently become necessary. Meanwhile, as a risk factor considered from a somewhat long-term perspective, members agreed that there were uncertainties regarding firms' and households' medium- to long-term growth expectations, in that they could go either upward or downward.

Regarding risks to prices, members agreed that, if the aforementioned risks to economic activity materialized, prices would be affected accordingly. Members also discussed risks specific to prices. They concurred that there were high uncertainties over firms' price- and wage-setting behavior, which could exert either upward or downward pressure on prices. Specifically, members shared the recognition that, depending on the degree of upward pressure from raw material costs and on developments in firms' inflation expectations, the pass-through of cost increases to selling prices could accelerate by more than expected and lead prices to deviate upward from the baseline scenario. One member expressed the view that risks to prices were skewed to the upside, mainly due to the continued rise in commodity prices, prolonged supply-side constraints, and heightened wage inflation. A different member pointed out that inefficiencies in trade and logistics resulting from the situation surrounding Ukraine, coupled with the surge in commodity and other prices, might continue to affect a wide range of goods prices in Japan. On the other hand, members shared the following view: given that, in Japan, the behavior and mindset based on the assumption that prices and wages would not increase easily were deeply entrenched, there was a risk that moves to increase wages would not strengthen and prices would deviate downward from the baseline scenario. One member expressed the recognition that there remained a risk that downward pressure would be exerted on prices if medium- to long-term inflation expectations, wage inflation, and medium- to long-term growth expectations did not rise sufficiently while "standby" funds that had accumulated amid the COVID-19 pandemic were not utilized.

Concerning additional risks 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. In particular, they shared the view that, under circumstances where fluctuations in international commodity prices had been significant recently due to the effects of the situation surrounding Ukraine, the impact on overall prices through energy and food prices warranted attention. One member said that commodity prices could plunge in the event that, for example, speculative demand for commodities dissipated following such developments as policy rate hikes by the Federal Reserve. The member then expressed the view that, from the second half of fiscal 2022, attention was also warranted on downside risks to prices stemming from such reactionary declines in commodity prices.

Based on these discussions, members agreed that, with regard to the risk balance, risks to economic activity were skewed to the downside for the time being, mainly due to the impact of COVID-19 and the situation surrounding Ukraine, but were generally balanced thereafter. They shared the recognition that risks to prices were skewed to the upside for the time being, mainly reflecting uncertainties over energy prices, but were generally balanced thereafter.

As 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. That said, 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 an overheating in the search for yield behavior; however, these risks were not significant at this point. In relation to this, one member said that, as part of responses to the decline in their profitability under the prolonged low interest rate environment, financial institutions' retail banking sectors had proceeded with imposing fees on customers for banking services that had previously been provided free of charge. The member continued that, considering that this low interest rate environment was likely to remain in place for a protracted period, it was necessary for financial institutions to further accelerate their efforts toward strengthening their profitability.

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 response to COVID-19 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. On this basis, members shared the view that it was appropriate to simplify the description regarding the three measures in the policy statement, given the changes to a part of the Special Program that was intended to provide financing support, mainly for large firms, such as the completion of additional purchases of CP and corporate bonds at the end of March 2022. Nevertheless, they shared the recognition that there was no change in the Bank's stance that, for the time being, it would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary.

Members then discussed the Bank's basic stance on its future conduct of monetary policy. One member pointed out that Japan's economy was still on its way to recovery from the COVID-19 pandemic, and moreover, as Japan is a commodity importer, the rise in commodity prices would lead to an outflow of income from Japan and thus exert downward pressure on the economy. On this basis, the member continued that, given such developments in economic activity and prices, it was necessary for the Bank to continue with the current powerful monetary easing and thereby firmly support the economy. A different member also said that, in the current situation where the output gap was still negative and there was a significant risk of firms becoming more cautious in making business decisions, it was appropriate for the Bank to make clear its stance that it would continue with the current monetary easing and thereby support the economy. One member expressed the recognition that the challenge of monetary policy in Japan was not to curb inflation, as in the case of the United States and Europe, but to overcome inflation that was still too low. A different member commented that, with the addition of Russia's invasion of Ukraine to the existing downside risks to the economy, the situation had further changed significantly; against this backdrop, it was not appropriate for the Bank to make any big changes to its monetary policy stance. One member expressed the recognition that it was necessary for the Bank to maintain the current monetary easing in order to avoid the changes that had started to be observed in households' and firms' inflation expectations ending up being temporary and to achieve the price stability target in a stable and sustainable manner. On the other hand, a different member pointed out 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. Meanwhile, one member said that, in a situation where achieving the price stability target of 2 percent during the projection period was difficult, it was necessary for the Bank to carefully outline the significance of the target and the path toward its achievement, and continue to bear in mind that, as monetary easing became further prolonged, its sustainability would be increasingly important.

Next, from the viewpoint of clarifying the Bank's monetary easing stance, members discussed whether they could devise some ways to improve the guideline for market operations. Some members pointed out that, when long-term interest rates became exposed to upward pressure, mainly due to overseas factors, the Bank had conducted fixed-rate purchase operations for consecutive days with a view to firmly setting an upper limit on the range of 10-year JGB yield fluctuations; however, some financial and capital market participants had been attempting to predict the future course of the Bank's policy stance based on whether or not fixed-rate purchase operations were conducted. On this basis, a few of these members said that, with a view to clarifying the Bank's stance to date of not accepting the long-term interest rate exceeding 0.25 percent and to avoiding a situation where daily operations were unnecessarily factored in by the market, it could be an option to make an announcement in advance that the Bank would conduct fixed-rate purchase operations at 0.25 percent every business day. One member also noted that the Bank should maintain monetary easing in a straightforward manner until the price stability target, accompanied by a virtuous cycle in which both prices and wages rise, was achieved in a sustainable and stable manner. On this basis, the member continued that, in order to communicate such a policy stance without misunderstanding, it would be effective to clarify the Bank's stance that it would conduct fixed-rate purchase operations in a straightforward manner. A different member also expressed the view that reiterating the Bank's stance of continuing market operations in line with the target level of the long-term interest rate was likely to contribute to the formation of an appropriate yield curve and clarification of its accommodative policy stance. One member said that, given the current situation where various speculations over 10-year JGB yields had arisen, mainly among overseas market participants, and considering that such situation had been observed for some time, it would be effective to clarify how the Bank would conduct fixed-rate purchase operations. The member then added that it was also necessary to pay attention to the effects this would have on market functioning. Based on this discussion, members shared the view that, from the standpoint of firmly setting an upper limit on the range of 10-year JGB yield fluctuations and dispelling market speculation over the Bank's policy stance, it would be appropriate to offer to purchase 10-year JGBs at 0.25 percent every business day through fixed-rate purchase operations, unless it was highly likely that no bids would be submitted. They continued that this would also contribute to ensuring stability in financial markets.

Meanwhile, members also discussed the relationship between monetary policy and foreign exchange rates. First, some members expressed the view that it was desirable for foreign exchange rates to move stably, reflecting economic and financial fundamentals. A few members then expressed the recognition that excessive fluctuations in the foreign exchange market over a short period of time, such as those observed recently, would raise uncertainties about the future and make it more difficult for firms to formulate their business plans, for example. On this basis, some members pointed out that it was necessary for the Bank to clearly communicate to the public that the aim of monetary policy conduct was to fulfill its mandate of achieving price stability, rather than to control foreign exchange rates. On this point, one member noted that, in the conduct of monetary policy, the effects that movements in commodity prices or foreign exchange rates had on economic activity and prices, rather than the movements themselves, warranted consideration. A different member expressed the view that the yen's depreciation worked positively in the current situation where the output gap and the unemployment gap were still large in absolute terms and underlying inflation was extremely low. One member -- while agreeing that the yen's depreciation could contribute to raising economic growth -- pointed out that the Bank should also clearly communicate to the public that (1) the effects of the yen's depreciation vary depending on the type of business or economic entity and (2) sharp fluctuations in foreign exchange rates would raise uncertainties about the future. Meanwhile, as for the background to the yen's recent depreciation, one member commented that one reason for this was the difference between economic conditions in Japan and those in the United States and Europe. A different member expressed the view that the yen's depreciation was also attributable to growing purchases of U.S. dollars by Japanese importers, amid an overall appreciation of currencies in commodity-exporting economies.

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 set 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. These members continued that, in order to implement this guideline for market operations, it was appropriate that the Bank offer to purchase 10-year JGBs at 0.25 percent every business day for an unlimited amount through the fixed-rate method, unless it was highly likely that no bids would be submitted.

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 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.

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, most members 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.

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) At the Group of Twenty (G20) and Group of Seven (G7) meetings in April 2022, member countries discussed the impact of Russia's aggression against Ukraine on the global economy; it was pointed out by Japan that the aggression had led to, for example, surges in energy and food prices and supply-chain disruptions.

(2) The government formulated on April 26 the comprehensive emergency measures to counter soaring crude oil and other prices under the COVID-19 pandemic, so that it could respond urgently and agilely to the soaring that resulted from the situation surrounding Ukraine and ensure the recovery in socio-economic activities from the COVID-19 pandemic. It would first of all make use of emergency funds swiftly for measures that needed budget allocation. In addition, in order to be prepared for any unexpected fiscal demand, the government planned to submit the supplementary budget -- which incorporated (1) additional allocation of emergency funds and (2) funds for operations to dampen drastic fluctuations in fuel prices -- to the Diet during the current session.

(3) The government expected the Bank to conduct appropriate monetary policy toward achieving price stability in a sustainable manner while taking the impact of the situation surrounding Ukraine and COVID-19 into account and cooperating with the government.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had shown signs of a pick-up as the severe situation due to the impact of COVID-19 was easing. However, amid heightening uncertainties, due mainly to the situation surrounding Ukraine, attention should be given to downside risks posed by, for example, rising raw material prices and fluctuations in the financial and capital markets.

(2) The government would swiftly implement the comprehensive emergency measures with a total project scale of about 13 trillion yen to respond urgently and agilely to the impact on people's daily lives and economic activity of soaring crude oil and other prices.

(3) In addition, the government would steadily proceed with discussions to compile a grand design and an action plan of a new form of capitalism, as well as the Basic Policy on Economic and Fiscal Management and Reform 2022; through these efforts, it would address medium- to long-term issues and realize a virtuous cycle of growth and distribution.

(4) The government expected that the Bank would thoroughly explain to the public its intentions behind the decision at this meeting to clarify how it conducted fixed-rate purchase operations and would continue to conduct appropriate monetary policy based on developments in economic activity and prices as well as financial conditions.

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:

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. In order to implement the above guideline for market operations, the Bank will offer to purchase 10-year JGBs at 0.25 percent every business day for an unlimited amount through the fixed-rate method, unless it is highly likely that no bids will be submitted.

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 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.

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. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. Mr. Kataoka expressed the opinion that 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. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the April 2022 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 May 2.

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of March 17 and 18, 2022, for release on May 9.

Attachment

April 28, 2022

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 (an 8-1 majority vote) [Note 1]

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) Clarification of how the Bank conducts fixed-rate purchase operations for consecutive days

In order to implement the above guideline for market operations, the Bank will offer to purchase 10-year JGBs at 0.25 percent every business day through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted.

(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.

2. 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. [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.