Not to be released until 8:50 a.m. Japan Standard Time on Wednesday, June 21, 2023.

June 21, 2023

Bank of Japan

# Minutes of the Monetary Policy Meeting

## on April 27 and 28, 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 Thursday, April 27, 2023, from 2:00 p.m. to 4:26 p.m., and on Friday, April 28, from 9:00 a.m. to 12:53 p.m.[1]

**Policy Board Members Present**

**UEDA Kazuo, Chairman, Governor of the Bank of Japan**

**HIMINO Ryozo, Deputy Governor of the Bank of Japan**

**UCHIDA Shinichi, Deputy Governor of the Bank of Japan**

**ADACHI Seiji**

**NAKAMURA Toyoaki**

**NOGUCHI Asahi**

**NAKAGAWA Junko**

**TAKATA Hajime**

**TAMURA Naoki**

Government Representatives Present

AKINO Kozo, State Minister of Finance, Ministry of Finance[2]

OKU Tatsuo, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]

FUJIMARU Satoshi, State Minister of Cabinet Office, Cabinet Office[2]

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

Reporting Staff

SHIMIZU Tokiko, Executive Director (Assistant Governor)

KAIZUKA Masaaki, Executive Director

KOUGUCHI Hirohide, Executive Director

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 June 15 and 16, 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 Present on April 28.

3 Present on April 27.

NAKAMURA Koji, Director-General, Monetary Affairs Department

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

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

FUJITA Kenji, Director-General, Financial Markets Department

OTANI Akira, Director-General, Research and Statistics Department

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

KAMIYAMA Kazushige, Director-General, International Department

Secretariat of the Monetary Policy Meeting

CHIDA Hidetsugu, Director-General, Secretariat of the Policy Board

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

ANDO Masatoshi, Senior Economist, Monetary Affairs Department

MARUO Yuji, Senior Economist, Monetary Affairs Department

OSADA Mitsuhiro, 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 9 and 10, 2023, the Bank had been conducting purchases of Japanese government bonds (JGBs).[5] 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. With these market operations, 10-year JGB yields had been at around 0 percent. Since the previous meeting, the shape of the JGB yield curve had been generally smooth, as interest rates had declined, mainly at medium- to long-term and super-long-term maturities.

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 without setting an upper limit.

Meanwhile, as a coordinated international action, the central banks offering U.S. dollar funds-supplying operations -- including the Bank of Japan -- increased the frequency of 7-day maturity operations from weekly to daily, starting from March 20. Thereafter, on April 25, they decided to revert the frequency to weekly from May, in view of the improvements in U.S. dollar funding conditions and the low demand at U.S. dollar funds-supplying operations.

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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.

## 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 0.005 to minus 0.033 percent; general collateral (GC) repo rates had been in the range of around minus 0.088 to minus 0.328 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been more or less flat over the intermeeting period.

The Tokyo Stock Price Index (TOPIX) had declined somewhat. Long-term interest rates (10-year JGB yields) had been at around 0 percent under yield curve control. 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. Meanwhile, the yen had depreciated against the euro.

## C. Overseas Economic and Financial Developments

The pace of recovery in overseas economies had slowed. In China, the economy had picked up, mainly in the services industry, as there continued to be moves toward normalization of economic activity. In Europe, production had turned upward in the manufacturing industry, with concern over energy supply easing. Advanced economies, however, remained under downward pressure stemming from elevated inflation and policy interest rate hikes.

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. European economies had slowed moderately despite concern over energy supply easing, as they continued to be affected by the situation surrounding Ukraine. The Chinese economy had picked up, as moves toward normalization of economic activity had been seen. In emerging and commodity-exporting economies other than China, the pace of improvement had slowed on the whole; although domestic demand continued to improve moderately in these economies, exports had slowed, particularly of IT-related goods.

As for the outlook, the pace of recovery in overseas economies was projected to remain slow for the time being, amid inflationary pressure persisting on a global basis and continued policy interest rate hikes by central banks, and also with the situation surrounding

Ukraine weighing on economic activity. Overseas economies were expected to pick up in steps thereafter as inflationary pressure gradually subsided and the normalization of economic activity in China progressed. There were considerably high uncertainties regarding the outlook, such as developments in global inflationary pressure, the course of the situation surrounding Ukraine, and developments in the Chinese economy.

With respect to overseas financial markets, long-term interest rates in the United States and Europe had declined, as the market-implied path for policy rates had shifted downward, mainly reflecting issues surrounding some financial institutions in these economies. As for stock prices in advanced economies over the intermeeting period, those in the United States had risen and those in Europe were almost unchanged. Meanwhile, currencies in many emerging economies had appreciated on the back of a decline in U.S. interest rates. Crude oil prices had been more or less flat.

**D. Economic and Financial Developments in Japan**

1. Economic developments

Japan's economy had picked up, despite being affected by factors such as past high commodity prices. Regarding the outlook, the economy was likely to recover moderately toward around the middle of fiscal 2023, supported by factors such as the materialization of pent-up demand, although it was expected to be under downward pressure stemming from past high commodity prices and the slowdown in the pace of recovery in overseas economies.

Although exports and production had been affected by the slowdown in the pace of recovery in overseas economies, they had been more or less flat, supported by a waning of the effects of supply-side constraints. Regarding the outlook, although exports and production were projected to be affected by such slowdown, they were likely to be more or less flat toward around the middle of fiscal 2023, due to factors such as the waning of the effects of supply-side constraints. Thereafter, they were likely to return to an uptrend with overseas economies picking up.

Corporate profits had been at high levels on the whole. Business sentiment was more or less unchanged. Business fixed investment had increased moderately. With regard to the outlook, as corporate profits remained at high levels on the whole, such investment was expected to continue increasing, mainly on the back of accommodative financial conditions.

Private consumption had increased moderately, despite being affected by price rises. The consumption activity index (CAI; real, travel balance adjusted) had increased moderately for the October-December quarter of 2022, partly because the government's domestic travel discount program had made a positive contribution. It had then increased slightly for the January-February period of 2023 relative to the October-December quarter. Based on anecdotal information from firms and high-frequency indicators, private consumption seemed to have continued on a moderate uptrend since March 2023, despite being affected by price rises. This was mainly because the impact of COVID-19 had waned further and improvement in the income situation had started to become more evident, partly in light of the 2023 annual spring labor-management wage negotiations. Regarding the outlook, although private consumption was expected to be affected by price rises, it was projected to continue increasing moderately, partly supported by household savings that had accumulated as a result of pandemic-related restrictions, with nominal employee income continuing to improve.

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 severe labor shortages. The number of non-regular employees had also risen moderately, 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 a pick-up in overall economic activity. Corporate managers' responses to the 2023 annual spring labor-management wage negotiations revealed to date showed that wage increases, including regular seniority-based ones, had risen significantly from around 2 percent for 2022 to the range of 3.5-4.0 percent for 2023, a level last seen in 1993. With regard to the outlook, nominal employee income was likely to continue increasing in reflection of an acceleration in nominal wage growth. In real terms, the year-on-year rate of change in employee income was projected to gradually turn positive toward the middle of fiscal 2023, as inflation declined and nominal employee income improved.

As for prices, commodity prices had been more or less flat on the whole, albeit with variation across items. With the impact of past high commodity prices and yen depreciation gradually waning, the rate of change in the producer price index (PPI) relative to three months earlier had started to decline slightly, partly due to the effects of the government's measures to reduce the burden of higher electricity and gas charges. The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) was slower than a while ago, mainly due to the effects of pushing down energy prices from the government's economic measures, but it had been at around 3 percent recently owing to the effects of a pass-through to consumer prices of cost increases led by a rise in import prices. Inflation expectations were more or less unchanged after rising. With regard to the outlook, the year-on-year rate of increase in the CPI (all items less fresh food) was expected to decelerate toward the middle of fiscal 2023, with a waning of the effects of the pass-through to consumer prices of cost increases led by the rise in import prices.

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 past high raw material costs. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuance conditions for CP had been favorable. In the corporate bond market, although a shortening of issuance maturities had been observed, issuance conditions had been favorable on the whole, as the widening of issuance spreads had paused. Firms' funding costs had been hovering at extremely low levels. In this situation, the year-on-year rate of increase in the amount outstanding of bank lending had been in the range of 3.0-3.5 percent. That in the aggregate amount outstanding of CP and corporate bonds had decelerated, registering around 3 percent. The number of bankruptcies of firms had been at a low level. Although weakness remained in some segments, firms' financial positions had been at improved levels on the whole, supported by a pick-up in economic activity.

The year-on-year rate of decline in the monetary base had decelerated. This was because the Bank's JGB purchases had increased, while the amount outstanding of funds provided through the Special Operations to Facilitate Financing had declined. The rate of change in the money stock had been at around 2.5 percent.

3. Financial system

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

Profits of major banks had been firm, mainly due to an improvement 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. Their credit costs had been at low levels on the whole. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

Profits of regional banks had been more or less flat; although net interest income and net non-interest income had increased, realized gains/losses on securities holdings had deteriorated, reflecting the rise in overseas interest rates. Their credit costs had been at low levels. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

Meanwhile, the impact of heightened uncertainty about the banking sector in the United States and Europe on Japan's financial system seemed to be limited. All types of Japanese banks maintained sufficient capital. In terms of yen funding, they had secured stable funding bases, especially through retail deposits. As for their foreign currency funding, they had increased the share of funding through deposits as well as medium- to long-term foreign exchange and currency swaps, for example, to stabilize their funding bases; thus, there were no particular disruptions to their recent funding. In sum, Japanese banks had both sufficient capital bases and stable funding bases to perform financial intermediation activities appropriately.

With regard to the financial cycle, of the 14 Financial Activity Indexes (FAIXs) that comprise the heat map in the *Financial System Report*, two -- 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 due to firms' behavior aimed at securing ample cash reserves, 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. Summary of Discussions by the Policy Board on Economic and Financial Developments and the April 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 there had been phases when market sentiment deteriorated in March 2023, mainly due to the effects of issues surrounding some financial institutions in the United States and Europe, but the markets had started to regain stability, mainly owing to swift responses taken by U.S. and European financial authorities. They then concurred that sentiment remained cautious, as attention continued to be drawn to uncertainties surrounding, for example, global inflationary pressure and the course of monetary policy in each economy.

Members agreed that the pace of recovery in overseas economies had slowed. One member added the view that there were high uncertainties as to how the impact of a decline in COVID-19-related fiscal spending would materialize.

With regard to developments in 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. One member, touching on the recent failures of some U.S. regional banks, noted that it was surprising to see problems arising in the banking sector, and that it was necessary to be fully prepared for the effects of monetary tightening brought about by policy interest rate hikes to continue spreading to the economic and financial fronts through various channels. On this basis, the member expressed the view that, in the baseline scenario, the economy was projected to see a mild deceleration in growth and a moderate decline in the inflation rate, with the Federal Reserve conducting monetary policy while taking into account the economic and financial situation, including the impact of such conduct on the U.S. financial system. Some members pointed out that, while the accumulated impact of policy interest rate hikes to date had started to spread to the financial system side, such as to financial institutions' lending stance and the credit market, prices remained at a high level as wages continued to be elevated due to tight labor market conditions. These members then said that the Federal Reserve's monetary policy conduct warranted close monitoring.

Members shared the view that European economies had slowed moderately despite concern over energy supply easing, as these economies continued to be affected by the situation surrounding Ukraine. A few members commented that upward pressure on prices remained high in Europe, as shown by price rises in final consumer goods and high wage growth. In addition, a few members expressed the view that it was necessary to carefully examine whether the impact of monetary tightening by the European Central Bank (ECB) would materialize on the financial system side.

Members agreed that the Chinese economy had picked up, as moves toward normalization of economic activity had been seen. Some members expressed the view that, although pent-up demand was expected to be seen for the time being, mainly for services consumption, the outlook for the Chinese economy was highly uncertain as it entailed both upside and downside risks. These members continued that the uncertainties were mainly due to structural problems, including the prolonged high youth unemployment rate, debt problems in the real estate sector, and a decrease in foreign investment to China reflecting geopolitical risks. One of these members said that, if private consumption in China was weak, this could also exert downward pressure on Japan's exports through the impact on the "silicon cycle."

Regarding emerging and commodity-exporting economies other than China, members shared the recognition that the pace of improvement had slowed on the whole; although domestic demand continued to improve moderately in these economies, exports had slowed, particularly of IT-related goods. One member commented that attention increasingly had been given to the Indian economy as a destination for foreign investment in the manufacturing industry amid expectations of continued high growth.

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. One member pointed out that a global decline in interest rates due to the effects of issues surrounding some financial institutions in the United States and Europe had consequently contributed to dissolving distortions in the shape of the yield curve in Japan.

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 had picked up, despite being affected by factors such as past high commodity prices. One member said that, while production activity in the manufacturing industry had leveled off somewhat, reflecting the impact of the slowdown in overseas economies, recovery in the nonmanufacturing industry had been solid on the back of increases in inbound tourism demand and pent-up demand. On the other hand, a different member noted that, although the domestic economy had been resilient on the whole and firms' appetite for business fixed investment had been maintained, private consumption had seen relatively low growth.

Members agreed that, although exports and production had been affected by the slowdown in the pace of recovery in overseas economies, they had been more or less flat, supported by the waning of the effects of supply-side constraints.

Members shared the recognition that business fixed investment had increased moderately. One member expressed the view that solid business fixed investment was attributable to accommodative financial conditions, such as low levels of real interest rates, and to high levels of corporate profits.

Members agreed that private consumption had increased moderately, despite being affected by price rises. A few members said that it had been on an improving trend, particularly for services, with the impact of COVID-19 waning. On this point, a few other members were of the view that pent-up demand had not materialized as much as expected. As background to this, one of these members commented that the effects of price rises had exerted downward pressure on consumption through a decline in real income and deterioration in sentiment. This member added that, while favorable developments had been observed in selective consumption, including travel and dining-out, many of the Bank's branches reported at the April 2023 meeting of their general managers that an increase in households' thriftiness in response to price rises had been pointed out, particularly by supermarkets that offer daily necessities. Meanwhile, one member expressed the view that, in the eating and drinking as well as accommodations industries, the downward pressure on consumption was partly attributable to the effects of bottlenecks stemming from labor shortages.

Members concurred that the employment and income situation had improved moderately on the whole. Many members pointed out that wages were projected to be raised by more than expected in the 2023 annual spring labor-management wage negotiations. A few members said that, not only had mobility in the labor market increased and the effects of labor shortages been exerted, there also had been movements toward a change in the "norm" of firms for prices and wages against the background of significant price shocks since 2022 stemming from overseas developments. A different member noted that moves to raise wages had started to spread more widely to small and medium-sized firms, as it had been reported that some of them had implemented wage increases to recruit and retain employees and had been able to secure the resources to raise wages as a result of the pass-through of cost increases to selling prices.

As for prices, members agreed that the year-on-year rate of increase in the CPI (all items less fresh food) was slower than a while ago, mainly due to the effects of pushing down energy prices from the government's economic measures, but it had been at around 3 percent recently owing to the effects of the pass-through to consumer prices of cost increases led by the rise in import prices. A few members pointed out that past price increases in commodities and raw materials continued to be passed on to consumer prices with a time lag. A different member said that, in addition to a pass-through of higher raw material prices, an increasing number of factors had contributed to firms raising their selling prices, including a pass-through of increases in shipping costs, electricity charges, and even personnel expenses. Members agreed that inflation expectations were more or less unchanged after rising.

**B. Outlook for Economic Activity and Prices**

In formulating the April 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 shared the recognition that Japan's economy was likely to recover moderately toward around the middle of fiscal 2023, supported by the materialization of pent-up demand, as well as by factors such as accommodative financial conditions and the government's economic measures, although it was expected to be under downward pressure stemming from past high commodity prices and the slowdown in the pace of recovery in overseas economies. Members continued that, from the second half of fiscal 2023, Japan's economy was projected to continue growing at a pace above its potential as a virtuous cycle from income to spending gradually intensified in the overall economy. One member expressed the view that the materialization of pent-up demand, relatively high wage increases, and other factors were expected to underpin consumption, and that active business fixed investment was likely to continue. On this basis, the member added that, when considering the outlook for Japan's economy, the strength of these developments was important. A few members said that, although the effects on exports and production of the slowdown in the pace of recovery in overseas economies were likely to remain for a while, various positive developments were expected, including improvement in consumer sentiment, an expansion in inbound tourism demand, Japanese manufacturers' transfer of their production sites back home, and an increase in labor-saving investment. Meanwhile, one member pointed out that, recently, cost increases led by the rise in import prices had been passed on to consumer prices and wage hikes by firms had progressed. The member continued that, in order for this to lead to a sustained virtuous cycle among prices, wages, and demand, it was important that Japan's economy see broad structural changes, such as further vitalization of the job market, improvement in firms' business operations, business realignment, and transformation in business models.

Members agreed that, although Japan's exports and production were projected to be affected by the slowdown in the pace of recovery in overseas economies, they were likely to be more or less flat due to factors such as the waning of the effects of supply-side constraints. In addition, they shared the view that inbound tourism demand, which is categorized under services exports, was expected to continue increasing.

Members concurred that -- as corporate profits remained at high levels on the whole, accommodative financial conditions provided support, and the effects of supply-side constraints waned -- business fixed investment was expected to continue increasing, including investment to address labor shortages, digital-related investment, research and development (R&D) investment related to growth areas and decarbonization, and investment associated with strengthening supply chains. One member said that investment that had been postponed during the pandemic was likely to resume, and that such developments as an increase in digital-related and labor-saving investment were expected to be observed. On this basis, the member pointed out that, in the medium to long term, it was necessary to pay attention to the possibility of business fixed investment being pushed down by, for example, the effects of a shrinking domestic market resulting from a decline in population.

Members agreed that, although private consumption was expected to be affected by price rises, it was projected to continue increasing moderately, mainly because pent-up demand was likely to materialize, partly supported by household savings that had accumulated as a result of pandemic-related restrictions. They also shared the view that, from the second half of fiscal 2023, private consumption was expected to keep increasing, supported by a rise in employee income, although the pace of increase was likely to decelerate as the materialization of pent-up demand slowed and the positive contribution of the government's various measures waned. One member expressed the view that high wage increases could lead, for example, to an improvement in consumer sentiment. One member stated that, when structural reforms of firms progressed and households' expectations for the future heightened, it was expected that the saving rate, which had risen during the pandemic, would return to normal and that this would push up private consumption in a sustained manner. On the other hand, a different member expressed the view that it was uncertain whether pent-up demand would materialize to an extent where it would make up for private consumption that had been restrained during the pandemic, with decreases in households' financial assets and weak real wages, both resulting from price rises, as well as concern regarding the future weighing on the materialization of such demand.

Members shared the view that employee income was likely to continue increasing because wage growth was expected to increase, reflecting tightening labor market conditions and price rises, in addition to an increase in the number of both regular and non-regular employees on the back of improvement in economic activity. On this basis, they discussed the results of the 2023 annual spring labor-management wage negotiations and their implications. One member commented that whether or not moves to raise wages would take hold from 2024 onward was vital, and that close monitoring was required regarding whether wages would continue to increase sufficiently relative to prices and whether this increase could support private consumption. On this point, one member expressed the view that, with labor shortages intensifying, high wage increases could be expected in 2024 as well. A different member was of the view that firms that had raised the starting salaries for new graduates in fiscal 2023 seemed to be planning to raise wages to some extent in fiscal 2024, partly with a view to maintaining the shape of the overall wage curve. A few members noted that it was reported at the April 2023 meeting of general managers of the Bank's branches that moves to raise wage growth had been observed in various regions, mainly due to labor shortages. Meanwhile, one member expressed the opinion that wage growth in 2023 seemed to be partly attributable to temporary factors. On this basis, the member said that, as a response to high raw material costs, passing on such cost increases to selling prices had become a viable option for firms; however, in order to sustain wage increases that could keep up with inflation, it was necessary for firms to strengthen their international competitiveness and capacity for generating earnings, including an expansion of exports by small and medium-sized firms, through reforming their business and wage structures, which had been a longstanding issue. The member continued that, in this regard, firms' responses to labor market reforms and developments in structural reforms warranted attention.

Based on this discussion, members shared the recognition that, comparing the projections with those in the January 2023 Outlook Report, the projected real GDP growth rates for fiscal 2022 and 2023 were lower, mainly due to a lower projection for private consumption, but the projected growth rate for fiscal 2024 was more or less unchanged.

Members then discussed the baseline scenario of the outlook for Japan's price developments. They shared the view that the year-on-year rate of increase in the CPI (all items less fresh food) had recently been above 2 percent but was highly likely to decelerate toward the middle of fiscal 2023, with the waning of the effects of the pass-through to consumer prices of cost increases led by the rise in import prices. Members continued that, thereafter, the rate of increase was projected to accelerate again moderately, albeit with fluctuations, as the output gap improved and as medium- to long-term inflation expectations and wage growth rose, accompanied by changes in factors such as firms' price- and wage-setting behavior. One member expressed the view that the year-on-year rate of change in the CPI was likely to remain high for the time being, mainly because inflation overseas and a rise in personnel expenses stemming from labor shortages were likely to have an effect. A different member expressed the opinion that signs of a virtuous cycle between prices and wages had started to be observed, in that there had been moves to raise selling prices to secure the resources for wage increases and for investment to address labor shortages. Meanwhile, a few members were of the view that, in order for CPI inflation to rise again toward 2 percent after decelerating, it was necessary that underlying factors including wage developments, firms' growth expectations, and medium- to long-term inflation expectations be improved and that sticky prices such as services prices rise. On this point, one member noted that the rate of increase in services prices was likely to accelerate, due mainly to wage increases. A different member expressed the view that a sustained increase in income due to base pay increases pushed up consumer prices in a more sustained manner than did cost-push factors and seemed to be more effective than a temporary income increase in terms of boosting the propensity to consume. The member continued that, therefore, a virtuous cycle between wages and prices tended to be maintained. Some members were of the view that, while firms' price-setting stance had been changing, Japan's CPI inflation was rather unlikely to remain elevated, unlike the situation for the United States and Europe, given that import prices had already peaked and that moves to raise selling prices in Japan reflecting excess demand had not been as widespread as in the United States and Europe.

Meanwhile, with regard to the CPI (all items less fresh food and energy), which is not directly affected by fluctuations in energy prices, many members expressed the view that the year-on-year rate of increase was projected to be at around 2.5 percent for fiscal 2023 and in the range of 1.5-2.0 percent for fiscal 2024 and 2025.

Based on this discussion, members shared the recognition that, compared with the projections in the January 2023 Outlook Report, the projected rates of increase in the CPI for fiscal 2023 and 2024 were somewhat higher, mainly due to a higher projection for wages.

Members then discussed upside and downside risks to economic activity and prices. They concurred that there were extremely high uncertainties for Japan's economy, including developments in overseas economic activity and prices as well as developments in the situation surrounding Ukraine and in commodity prices. Moreover, members shared the view that, under these circumstances, 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.

On this basis, members noted the following three factors as major risks to economic activity: (1) developments in overseas economic activity and prices and in global financial and capital markets; (2) developments in the situation surrounding Ukraine and the associated developments in prices of commodities, including grains; and (3) firms' and households' medium- to long-term growth expectations.

With regard to developments in overseas economic activity and prices and in global financial and capital markets, members shared the recognition that, although inflation rates in the United States and Europe 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. One member noted that, in particular, attention was warranted on factors such as the impact of monetary tightening in the United States, developments on the employment and income side in China, and the possibility of adjustments in the Chinese real estate market. In addition, with regard to the fact that there had been phases when market participants' risk sentiment deteriorated, mainly due to uncertainties over business conditions of some financial institutions in the United States and Europe, some members pointed out that issues surrounding these institutions had started to be resolved owing to the authorities' swift responses. They continued that, however, attention continued to be warranted on the possibility of the effects of monetary tightening in the United States and Europe emerging through various channels, including from the financial system side.

Meanwhile, with regard to how COVID-19 at home and abroad would affect private consumption and firms' export and production activities, which was identified as one of the major risk factors in the January 2023 Outlook Report, members agreed that it was appropriate to delete the description of this in the April 2023 Outlook Report, considering that the government was planning to reclassify COVID-19 on May 8, 2023, as a Class V infectious disease -- the same as seasonal influenza -- under the Infectious Disease Control Law and that the risk of COVID-19 affecting economies and financial markets at home and abroad had declined.

Regarding risks to prices, members concurred that, if the aforementioned risks to economic activity materialized, prices would be affected, and that the following factors warranted attention as risks specific to prices: (1) firms' price- and wage-setting behavior, and (2) 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. One member expressed the view that, although CPI inflation was projected to come close to the price stability target of 2 percent as the output gap improved and as inflation expectations and wage growth rose, this would take time and there were high uncertainties over the outlook. A different member said that it was necessary to pay attention to both upside and downside risks: the risk that firms' wage growth and selling prices for fiscal 2024 onward, as well as medium- to long-term inflation expectations, would deviate upward from the baseline scenario, mainly in response to intensifying labor shortages; and the risk that prices would deviate downward from the baseline scenario, mainly due to the global economy decelerating more than expected. One member expressed the view that, considering, for example, the increase in households' thriftiness and weak real wages, attention needed to be paid to future scenarios, such as one where CPI inflation declined to a level well below 2 percent and did not return to 2 percent.

With regard to the risk balance, members agreed that risks to economic activity were skewed to the downside for fiscal 2023 but were generally balanced thereafter. They also concurred that risks to prices were skewed to the upside for fiscal 2023 but were skewed to the downside for fiscal 2025.

**III. 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, and by doing so, achieve the price stability target in a sustainable and stable manner, accompanied by wage increases. Some members expressed the view that the inflation rate was likely to decline temporarily, uncertainties regarding overseas economies had been high, and it was still difficult to assess the sustainability of future wage hikes and developments in medium- to long-term inflation expectations. They continued that, taking these factors into account, it was appropriate for the Bank to continue with the current monetary easing. One member pointed out that, in order to achieve the price stability target of 2 percent in a sustainable manner, this needed to be accompanied by wage increases. On this basis, a few members, including this member, noted that, although wages were projected to be raised by more than expected in the 2023 annual spring labor-management wage negotiations, it was necessary for the Bank to continue to firmly support the momentum for wage hikes by maintaining monetary easing so that the nominal wage growth rate would rise sufficiently relative to prices. One member commented that, although price projections had been raised somewhat, the risk of missing a chance to achieve the 2 percent target due to a hasty revision to monetary easing was much more significant than the risk of the inflation rate continuing to exceed 2 percent. A different member also expressed the view that, while attention was warranted for the time being on the possibility of continued high inflation, a scenario where the inflation rate declined well below 2 percent and did not return to 2 percent was considered to be more important in the medium term. Based on this, these members were of the view that the Bank should patiently continue with monetary easing while keeping an eye on both its positive and side effects. A different member expressed the view that, although achievement of the price stability target of 2 percent seemed to be coming into sight, it was appropriate that the Bank continue with monetary easing for the time being since there were both upside and downside risks. Meanwhile, one member said that signs of a virtuous cycle between wages and prices had started to emerge in Japan's economy. The member continued that it was necessary for the Bank to appropriately assess underlying developments in economic activity and prices so that its policy responses would not fall behind. A different member expressed the view that, with the extremely low interest rates built into the business conventions of economic entities, the Bank needed to avoid abrupt changes in interest rates, humbly monitor price and wage developments, and make responses at the right moment. One member, noting that households, firms, and financial institutions had thus far carried out fund management and financing based on the assumption of a low interest rate environment, expressed the view that it would be necessary to examine whether each economic entity was well prepared to deal with future changes in interest rates.

With respect to <u>yield curve control</u>, 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. Members pointed out that distortions on the yield curve were dissolving; they agreed that there was no need to revise the conduct of yield curve control. Meanwhile, one member pointed out that there were many market views that market functioning remained low, including the functioning of JGB yields as reference rates. On this basis, the member said that yield curve control seemed, in some aspects, to have hampered smooth financing and the Bank could consider revising its conduct at this time; however, it was appropriate to wait and see a little longer in light of the situation in global financial markets. This member added that attention was warranted on upcoming *Bond Market Survey* results.

Based on the above discussions, regarding <u>the guideline for market operations for the intermeeting period</u>, members agreed that it was appropriate for the Bank to maintain the current guideline for yield curve control, including its conduct. In addition, they concurred that it was appropriate to maintain the current guideline for <u>asset purchases other than JGB purchases</u>.

Members then discussed <u>the future conduct of monetary policy</u>. Many members expressed the opinion that, considering the government's reclassification of COVID-19 under the Infectious Disease Control Law and the decline in the risk of COVID-19 affecting economies and financial markets at home and abroad, it might no longer be suitable to describe the Bank's future conduct of monetary policy in relation to the pandemic. One member said that, for the time being, it was appropriate for the Bank to continue with the current monetary easing, and it should be careful to ensure that revision to the forward guidance would not be viewed as its willingness to raise the policy interest rates. On this point, one member noted that, although the impact of COVID-19 had lessened, there were extremely high uncertainties surrounding economies and financial markets at home and abroad. The member continued that, even if the Bank were to revise the forward guidance, it was appropriate to communicate clearly to the public that there was no change in the Bank's accommodative stance that it would patiently continue with monetary easing and take additional easing measures if necessary. A different member said that, since it would still take time to achieve the price stability target of 2 percent, the forward guidance, which stated that the Bank would continue with monetary easing until achievement of the target, was effective from the perspective of demonstrating its strong commitment to achieving the target. One member expressed the view that it might be appropriate for the Bank to take this opportunity to reexamine the communication to date regarding its future conduct of monetary policy, including the description of its stance of aiming to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases, and of nimbly responding to developments in economic activity and prices as well as financial conditions. A different member noted that, while there were upside risks to prices, another issue to be discussed was whether it was appropriate to keep the current description that the Bank "also expects short- and long-term policy interest rates to remain at their present or lower levels."

In response to the members' views, the chairman requested that the staff provide possible responses regarding the description of the Bank's future conduct of monetary policy. Based on the members' views, the staff presented the following possible responses.

(1) The Bank could provide a new comprehensive description of future monetary policy conduct and explain its basic stance that it would continue with monetary easing. In detail, the possible description could be that "with extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases."

(2) Descriptions of the Bank's stance to continue with Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control and on the inflation-overshooting commitment would be unchanged.

(3) The Bank could reexamine the description of its future conduct of monetary policy in relation to the pandemic because the government was planning to reclassify COVID-19 under the Infectious Disease Control Law and the risk of COVID-19 affecting economies and financial markets at home and abroad had declined. However, to avoid any misinterpretation that its monetary easing stance had weakened, the Bank could leave unchanged the current description that it "will not hesitate to take additional easing measures if necessary," in addition to stating clearly in the basic stance that the Bank would "patiently continue with monetary easing."

With regard to adding the description of "accompanied by wage increases," as explained by the staff, one member was of the opinion that this seemed to be a good opportunity to carefully explain to the public that the Bank aimed to achieve the inflation target with a virtuous cycle operating, including between wages and corporate profits. Meanwhile, a few members expressed a cautious view that including this description could cause a misinterpretation that the Bank had added a new policy objective. These members noted that, if the Bank were to add such description, it was necessary to make appropriate communication to the public so as to avoid any such misinterpretation. Based on the above discussion, members shared the view that it was appropriate that the Bank reexamine and clarify its description with regard to the future conduct of monetary policy as presented by the staff.

Members also discussed the Bank's review of its monetary policy. One member said that, since the late 1990s, with Japan's economy facing the effective lower bound on short-term interest rates, the Bank had stepped in to implement various unconventional monetary policy measures. On this basis, the member raised the point that a broad-perspective review of its monetary policy over the past 25 years might provide useful insights for the future conduct of monetary policy. One member -- noting that the Bank's monetary easing measures to date had been implemented based on the judgment that it would be necessary in light of the economic and financial developments at each point in time -- expressed the view that, when conducting a review of its monetary policy, it was appropriate to take into account how the easing measures had interacted with the circumstances that Japan's economy had undergone. This member said that the review would be useful in, for example, effectively continuing with monetary easing. The member then argued that, in order to make the review objective and reasonable, it should be conducted from a broad perspective, without bearing a specific policy change in mind. A different member pointed out that much of Japan's experience since the late 1990s did not necessarily coincide with what had been inferred from various economic theories, such as in terms of the relationships between the unemployment rate and wage growth, as well as between money and inflation. The member then expressed approval to conduct a broad and multi-perspective review of monetary policy. A different member pointed out that the prolonged monetary easing was largely attributable to the formation of the "norm" that prices and wages do not rise, which had resulted from the protracted deflationary equilibrium since the bursting of the bubble economy. The member then said that an analysis based on a broad perspective was necessary in the assessment of monetary policy.

In response to the members' views, the chairman requested that the staff present possible responses regarding the review of monetary policy. Based on the members' views, the staff explained that the following responses could be considered.

(1) Looking back at the 25 years since the late 1990s, when Japan's economy fell into deflation, the Bank would conduct a broad-perspective review of how monetary policy had interacted with developments in economic activity and prices as well as financial conditions during that period. Based on the results of these analyses, the Bank would aim at gaining useful insights for the future conduct of monetary policy. To conduct the review from a broad perspective, it would set a planned time frame of around one to one and a half years. This course of action would be made public in the Statement on Monetary Policy of this meeting.

(2) The review would be conducted by giving due consideration to objectivity and transparency. Specifically, (a) during the course of the review process, the Bank would release as needed results of the analyses that could be made available to the public on individual bases; (b) upon completion of the review, it would make public the final results; and (c) in conducting the review, the Bank -- in addition to holding discussions within the Policy Board -- would take such initiatives as organizing workshops involving external experts, thereby gathering diverse insights and incorporating them into the review.

Members concurred that it was appropriate for the Bank to conduct a review of its monetary policy from a broad perspective, as in the manner explained by the staff. One member commented that it was necessary for the Bank to take sufficient time to comprehensively review structural changes in the economy during the "lost three decades" and the monetary policy effects seen thus far, so as to make use of the findings in the future conduct of monetary policy. One member said that analyses and assessments should be performed as objectively as possible, rather than merely focusing on the achievements of the policy measures to date. In response, a different member expressed the view that it was inappropriate to place emphasis on the negative aspects of the measures more than necessary, as this would make the review one-sided. One member noted that it was appropriate that (1) the findings of the review be understandable not only to experts but also to a wide range of Japanese citizens and (2) the review be conducted on a variety of issues, including the Bank's policy measures and its strategy for communication to the public. Meanwhile, a different member said that, partly because the Bank had introduced various unconventional monetary policy measures ahead of the rest of the world, a broad-based assessment, including of the positive and side effects of these measures, might be worthwhile, mainly to gain a deeper international understanding regarding developments in Japan's economic activity and prices as well as the conduct of monetary policy in response to these developments.

## IV. Remarks by Government Representatives

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

(1) Prime Minister Kishida and the Bank's Governor Ueda recently shared the recognition that, with extremely high uncertainties, the government and the Bank would nimbly conduct policies in response to developments in economic activity and prices as well as financial conditions, and that, at this point, there was no need to revise the joint statement of the government and the Bank.

(2) The government expected the Bank to continue to work toward achieving the price stability target in a sustainable and stable manner under the new leadership of Governor Ueda, while closely cooperating with the government.

(3) The budget for fiscal 2023 was approved by the Diet on March 28. With this budget, the government aimed to pave the way to solving domestically and internationally important challenges that Japan faced -- such as the fundamental reinforcement of defense

capabilities, child-related policy, promotion of the green transformation, and regional revitalization -- and to carve out a future path for the country. The government would implement the budget swiftly and steadily.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had picked up moderately, although some weaknesses had been seen recently. However, full attention should be given to the risk of a global economic slowdown and the effects of fluctuations in the financial and capital markets.

(2) As two wheels of a cart, the government would promote (1) improvement in productivity through an expansion in domestic investment and encouragement of R&D and (2) wage hikes by way of securing markups through the pass-through of cost increases to selling prices.

(3) It was important for the Bank to carefully explain to the public its intention to change the description on its monetary policy stance.

(4) The government expected the Bank to achieve the price stability target of 2 percent in a sustainable and stable manner, taking account of 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 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: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NAKAMURA Toyoaki, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and 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 maintain the amount outstanding of CP at about 2 trillion yen. It will purchase corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amount outstanding will gradually return to the pre-pandemic level of about 3 trillion yen. In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.

Votes for the proposal: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NAKAMURA Toyoaki, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and 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).

**VI. Discussion regarding the Outlook Report**

Members discussed the draft of "The Bank's View" in the April 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 May 1.

**VII. Approval of the Minutes of the Monetary Policy Meeting**

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of March 9 and 10, 2023, for release on May 8.

Attachment
April 28, 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 maintain the amount outstanding of CP at about 2 trillion yen. It will purchase corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amount outstanding will gradually return to the pre-pandemic level of about 3 trillion yen. In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.

2. With extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases.

   The Bank will continue with Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, aiming to achieve the price stability target, 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. The Bank will continue to maintain stability of financing, mainly of firms, and financial markets, and will not hesitate to take additional easing measures if necessary.

3. Since the late 1990s, when Japan's economy fell into deflation, achieving price stability has been a challenge for a long period of 25 years. During this period, the Bank has implemented various monetary easing measures. These measures have interacted with and influenced wide areas of Japan's economic activity, prices, and financial sector. In light of this, the Bank has decided to conduct a broad-perspective review of monetary policy, with a planned time frame of around one to one and a half years.