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August 2, 2023

Bank of Japan

Minutes of the Monetary Policy Meeting

on June 15 and 16, 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, June 15, 2023, from 2:00 p.m. to 4:03 p.m., and on Friday, June 16, from 9:00 a.m. to 11:40 a.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]
MORO Kengo, Deputy Director General for Economic and Fiscal Management, Cabinet Office[3]

Reporting Staff

SHIMIZU Tokiko, Executive Director (Assistant Governor)
KAIZUKA Masaaki, 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 July 27 and 28, 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 June 16.

[3] Present on June 15.

NAKAMURA Koji, Director-General, Monetary Affairs Department

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

NAKASHIMA Motoharu, Head of Policy Planning Division, Monetary Affairs 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

KURAMOTO Katsuya, Director-General, Secretariat of the Policy Board

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

TSUCHIKAWA Akira, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

MARUO Yuji, Senior Economist, Monetary Affairs Department

OSADA Mitsuhiro, Senior Economist, Monetary Affairs Department

KURACHI Yoshiyuki, Senior Economist, Monetary Affairs Department

[4] Present on June 15 from 2:55 p.m. to 4:03 p.m.

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

A. Market Operations in the Intermeeting Period

In accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both of which were decided at the previous meeting on April 27 and 28, 2023, the Bank had been conducting purchases of Japanese government bonds (JGBs).[6] Under the guideline for conduct of yield curve control decided at that meeting, it had also conducted outright purchases of 10-year JGBs at 0.5 percent through the fixed-rate method every business day. Moreover, the Bank had carried out fixed-rate purchase operations of the cheapest-to-deliver (CTD) issues every business day. With these market operations, 10-year JGB yields had been at around 0 percent. The shape of the JGB yield curve since the previous meeting continued to be generally smooth.

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.

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 0.023 to minus 0.079 percent; general collateral (GC) repo rates had been in the range of around minus 0.088 to minus 0.224 percent. 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) had risen substantially. Long-term interest rates (10-year JGB yields) had been at around 0 percent under yield curve control. Many of the liquidity indicators in the JGB markets generally remained in a state of deterioration compared with those seen in the first half of 2022; however, they had been improving relative to their deterioration from the end of 2022 to around mid-March this year. The diffusion index (DI) for the degree of bond market functioning in the *Bond Market Survey*, despite remaining negative, showed an improvement from the previous survey. In the foreign exchange market,

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

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

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

the yen had depreciated against the U.S. dollar, mainly on the back of a widening of the yield differential between Japan and the United States. Meanwhile, the yen had also depreciated against the euro.

C. Overseas Economic and Financial Developments

The pace of recovery in overseas economies had slowed. 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, although concerns over energy supply had eased compared with a while ago, as they continued to be affected by the situation surrounding Ukraine. The Chinese economy had picked up, as the normalization of economic activity had progressed, while being affected by factors such as adjustments in IT-related goods and a slowdown in external demand. 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, in the United States, long-term interest rates had risen, mainly reflecting solid economic indicators, and stock prices had also increased, particularly for high-tech-related stocks. On the other hand, long-term interest rates and stock prices in Europe were almost unchanged. Meanwhile, currencies in many emerging economies had depreciated on the back of the rise in U.S. interest rates. Crude oil prices had declined, mainly reflecting weaker-than-expected economic indicators in China.

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, exports and production were projected to continue showing similar developments toward around the middle of fiscal 2023. 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 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 for the January-March quarter of 2023 but had decreased for April relative to that quarter. Based on anecdotal information from firms and high-frequency indicators, private consumption seemed to have continued to increase moderately since May 2023. This was because it had been supported in part by the effects of the downgrading of COVID-19 to a Class V infectious disease, with improvement in the income situation starting to become clear, 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 with nominal employee income continuing to improve, and partly supported by household savings that had accumulated as a result of pandemic-related restrictions.

The employment and income situation had improved moderately. Regarding the number of employed persons, that of regular employees had increased moderately, 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 been on a moderate uptrend, when fluctuations were smoothed out, 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 decreased somewhat on the whole. 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 declined, partly due to the effects of a reduction by the government in the rate of renewable energy surcharges on electricity. The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) had been 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 3.5 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 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 on the back 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, issuance conditions had been favorable on the whole, as supply-demand conditions had shown signs of improvement. 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 3.5-4.0 percent. That in the aggregate amount outstanding of CP and corporate bonds had decelerated and had been in the range of 1.5-2.0 percent. The number of bankruptcies of firms had increased recently but remained 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 with the waning effects of the decline in the amount outstanding of funds provided through the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) (the Special Operations to Facilitate Financing). The rate of change in the money stock had been positive, in the range of 2.5-3.0 percent.

II. Amendment to "Principal Terms and Conditions of Complementary Deposit Facility"

A. Staff Report

New loan disbursement under the Special Operations to Facilitate Financing was terminated in March 2023 as scheduled, and all loans disbursed under the operation would reach maturity by the end of June. Accordingly, the staff proposed that the Bank amend the Principal Terms and Conditions of Complementary Deposit Facility and the Principal Terms and Conditions of the Interest Scheme to Promote Lending.

B. Discussion by the Policy Board and Vote

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

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

A. Economic and Price Developments

With regard to <u>global financial and capital markets</u>, members concurred that market sentiment had shown signs of improvement, mainly on the back of solid corporate results, although attention continued to be drawn to uncertainties surrounding monetary policy and the financial sector in the United States and Europe and to a slowdown in the global economy.

Members shared the recognition that the pace of recovery in overseas economies had slowed. One member expressed the view that the slowing trend in advanced economies had strengthened as the effects of monetary tightening since 2022 had gradually materialized. The member continued that the pick-up in the Chinese economy also had been slow. Meanwhile, a few members noted that, in many economies and regions, the manufacturing industry had weakened somewhat while the services industry had been firm.

Members agreed 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. Some members expressed the view that, with labor market conditions remaining tight, inflationary pressure had been persistent. One member said that the pace of increase in private consumption was likely to slow as household savings, which had supported firm private consumption, was expected to decline. A different member expressed the view that, given that the credit market and financial institutions' lending stance had tightened due to the impact of policy interest rate hikes, attention was warranted on whether a credit crunch would occur, mainly in the commercial real estate market, where loans were largely extended by regional banks.

Members shared the recognition that European economies had slowed moderately, although concerns over energy supply had eased compared with a while ago, as these economies continued to be affected by the situation surrounding Ukraine. One member stated that inflation in Europe seemed to have eased. In response, a few members expressed the view that inflationary pressure in reflection of wage increases might be persistent. One member said that attention should be paid to uncertainties remaining high over energy and other supplies, and to the impact of the tightening of the rules of origin for determining the tariffs on goods traded between the European Union (EU) and the United Kingdom.

Members shared the view that the Chinese economy had picked up, as the normalization of economic activity had progressed, while being affected by factors such as adjustments in IT-related goods and the slowdown in external demand. That said, a few members expressed the recognition that the pace of recovery in private consumption, mainly for goods, had been slow, due in part to the prolonged high youth unemployment rate. One of these members was concerned about the weakness in private consumption reflected in low consumer prices and about a decline in growth expectations. In addition, some members expressed the view that adjustments in the real estate market continued to push down the economy.

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.

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

With regard to <u>economic activity</u>, members agreed that Japan's economy had picked up, despite being affected by factors such as past high commodity prices. A few members expressed the view that, while exports and production had been affected by the slowdown in overseas economies, private consumption -- mainly for services -- had increased moderately, supported in part by the effects of the downgrading of COVID-19 to a Class V infectious disease. In addition, one member said that, as the domestic economy had been resilient on the whole, a business sentiment indicator had been higher than the break-even point between improvement and deterioration, and that firms' positive stance toward business fixed investment was maintained.

As for <u>the outlook for economic activity</u>, members shared the view that Japan's 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. They continued that, thereafter, as a virtuous cycle from income to spending gradually intensified, Japan's economy was projected to continue growing at a pace above its potential. One member expressed the view that the economic recovery was expected to be led mainly by rises in inbound tourism demand and services consumption, a waning of supply-side constraints, and an increase in business fixed investment aimed at addressing labor shortages. On this point, a different member noted that it was necessary to examine the actual hard data to see whether the driver of private consumption would smoothly shift from the materialization of pent-up demand to a rise in income due to wage increases, and to see at what pace adjustments in the IT sector would progress. Meanwhile, one member expressed the view that growth expectations for Japan's economy were starting to rise.

Members shared the recognition 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. One member pointed to the possibility that downward pressure would continue to be exerted on exports and production, as business sentiment for the manufacturing industry had been sluggish in major overseas economies.

Members agreed that business fixed investment had increased moderately, with corporate profits being at high levels on the whole. One member expressed the view that firms' solid appetite for business fixed investment was attributable to accommodative financial conditions, such as low levels of real interest rates, and to high levels of corporate profits. A different member commented that moves to transfer production sites back home, mainly reflecting geopolitical risks, were also expected to support an expansion in business fixed investment.

Members concurred that private consumption had increased moderately, despite being affected by price rises. A few members expressed the recognition that, although price rises had been weighing on consumption of nondurable goods, such as daily necessities, services consumption had increased. A few other members pointed out that indicators of consumer confidence had improved since early spring. These members expressed the view that this was attributable to the normalization of economic activity, as well as rising expectations for improvement in the income situation in response to the achievement of wage increases at high levels. One of these members added that attention was warranted on whether the improvement in such indicators, together with the effects of the recent rise in stock prices, would lead to supporting positive developments among firms and households.

Members shared the view that the employment and income situation had improved moderately. One member noted that, as indicated in the *Regional Economic Report Annex Series* released last week, labor shortages had been intensifying, including in nonmetropolitan areas, and together with increased mobility in the labor market, such as an expansion in the market for job changers, tightened labor market conditions and increased upward pressure on wages had been observed. A few members said that they were expecting wage increases to become sustainable on the back of such factors as labor shortages. One member commented that it was necessary to assess whether there was a higher possibility of achieving wage increases that could keep up with inflation by (1) examining, for example, initiatives toward implementing a system of job-based pay that was appropriate for Japan and the situation, with a view to the wage negotiations in 2024, and (2) gathering information on progress with strengthening firms' capacity for generating earnings, such as developments in firms' pass-through of cost increases to their selling prices, mergers and acquisitions, sales of businesses, and expansions of small and medium-sized firms' exports.

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 3.5 percent recently owing to the effects of the pass-through to consumer prices of cost increases led by the rise in import prices. Many members expressed the recognition that the recent inflation rate had been somewhat higher than the forecasts presented in the April 2023 *Outlook for Economic Activity and Prices*. A few members said that, given the strong upward pressure of costs from last year's rise in import prices, there was a possibility that the pass-through to consumer prices of cost increases had been prolonged. One member commented that high consumer prices around the turn of the fiscal year had mainly been led by goods prices, and since the main reason for this had not been a pass-through of wage increases to services prices, price rises still seemed to be caused mainly by cost-push factors. The member continued that, however, whether there would be a change in firms' price-setting behavior warranted attention. A few members expressed the view that, while price rises were still largely attributable to overseas factors, the contribution of domestic factors had increased, as seen in the fact that consumer prices of services had risen at a notable pace. Some members pointed out that there had been moves among firms, albeit only some, to raise prices in order to secure the resources to raise wages. A few members expressed the view that the situation where firms had been able to pass on cost increases to selling prices was attributable in part to steady demand. Meanwhile, members agreed that inflation expectations were more or less unchanged after rising. One member said that, although there was no conclusive evidence that medium- to long-term inflation expectations had seen a significant change due to the recent high prices, attention was warranted on their future developments, since such expectations were an important factor, including with regard to the conduct of yield curve control.

With regard to the outlook, members shared the view that the year-on-year rate of increase in the CPI was 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. They 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. A few members pointed out that import prices had declined and their year-on-year rate of change was negative. One member noted that uncertainties over the outlook for prices had heightened and various paths could be expected depending on the pace of deceleration in import inflation, when inflation that stemmed from domestic factors would take place, and how strong such inflation would be. This member then expressed the recognition that a possibility had emerged that the inflation rate would follow a path of heading slowly toward 2 percent without falling below that level, and the risk that the rate would remain high at a level exceeding 2 percent could not be ruled out. On this basis, the member added that there remained a significant risk of the inflation rate not returning to 2 percent after falling below that level in the future. Regarding such future path of prices, one member said that, while the year-on-year rate of increase in the CPI was likely to decelerate toward the middle of fiscal 2023, there were still high uncertainties over whether it would accelerate again thereafter, and it was necessary to examine factors such as the sustainability of wage hikes going forward. In addition, a different member was of the view that the year-on-year rate of increase in the CPI was likely to fall below 2 percent in the second half of fiscal 2023 after the pass-through of the past rise in import prices diminished. Another member expressed the recognition that prices might deviate upward from the baseline scenario since the pass-through of cost increases continued to be observed, but the sustainability of this situation was of concern. On the other hand, one member noted that, although the rise in raw material prices had paused, firms' pass-through of cost increases to their selling prices had intensified further, the employment and income situation had improved, and inbound tourism demand had recovered. The member was of the opinion that, given this, inflationary pressure was likely to remain strong for the time being. A few other members pointed out that corporate behavior had seen changes, and price and wage hikes had been incorporated into firms' corporate strategies. One of these members, noting that various measures of underlying inflation had mostly shown a rate exceeding 2 percent, said that it was highly likely that the year-on-year rate of increase in the CPI would decelerate toward the middle of fiscal 2023 but not fall below 2 percent. Meanwhile, one member expressed the view that, if an increasing number of firms were setting prices by factoring in future cost changes, instead of by reflecting past high costs, this was a new development. On this basis, the member expressed the recognition that now could be an inflection point, and it was extremely important to understand the nature of inflation by examining a wide range of micro and macro information, including price movements by type of goods and services, firms' margins and profits, households' perception of price and wage developments, and the course of sales in response to price rises.

As for risks to economic activity and prices, members 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, they 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. One member expressed the view that, while upward pressure on prices persisted overseas, uncertainties over such factors as monetary policies in the United States and Europe were high; thus, close attention was warranted on developments in overseas economies and global financial conditions. In relation to this, a few members pointed out that attention should be paid to the risk of overseas economies, including the United States and China, deviating downward from the baseline scenario pushing down Japan's economic activity and prices. Meanwhile, many members noted that, based on the recent signs of changes in price developments and corporate behavior, there was a risk that the inflation rate would deviate upward from the baseline scenario for the time being. One member expressed the view that, given the high levels of corporate profits, wage increases at high levels were likely to continue in the 2024 annual spring labor-management wage negotiations.

B. Financial Developments

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 view that firms' funding costs had been hovering at extremely low levels. Many members assessed that the functioning of the bond market had improved, as seen, for example, in distortions on the yield curve having dissipated and the issuance conditions for corporate bonds showing signs of improvement, especially in the long-term zone. One member expressed the view that, in addition to the effects of a rise in overseas interest rates coming to a halt, the Bank's communication on its accommodative stance, including the clarification of its basic stance on monetary easing at the previous meeting, had contributed to the improvement in the functioning of the bond market. However, some members added that, although market liquidity indicators and the results of the *Bond Market Survey* suggested that the functioning of the bond market had improved, its level remained low. Meanwhile, one member said that growth expectations were rising due to firms' efforts to strengthen their capacity for generating earnings, and attention was warranted on the role of regional banks, which stimulate and sustain demand for funds by firms that drive the regional economy.

IV. Summary of Discussions on Monetary Policy

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

With regard to <u>the Bank's basic stance on its future conduct of monetary policy</u>, 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. Many members expressed the recognition that it was appropriate to continue with monetary easing and thereby support the changes in firms' wage- and price-setting behavior, such as wage increases at high levels and continued pass-through of cost increases to selling prices. One of these members said that it was important to continue with monetary easing and thereby carefully nurture the long-awaited buds of change in Japan's economy, including those in firms' wage- and price-setting behavior. A different member, noting that the wage growth rate agreed in the 2023 annual spring labor-management wage negotiations thus far had been the highest in around 30 years, expressed the view that it was important for the Bank to keep supporting such momentum for wage hikes through continuation of the current monetary easing. Another member expressed the opinion that, given that many small and medium-sized firms had started to be more willing to raise wages and invest with, for example, their continued pass-through of cost increases to selling prices and expansions of exports, it would be premature to revise monetary policy if that would hinder such developments. A different member said that, although there was a growing possibility of achieving 2 percent inflation in a sustainable and stable manner, the Bank should maintain the overall framework of monetary easing for the time being, since the cost of waiting for such achievement was not high.

One member said that, in making policy decisions, it was important for the Bank to first understand the nature of current inflation and examine its effects on the outlook for prices, and then weigh the risk of the inflation rate continuing to exceed 2 percent and the risk of missing a chance to achieve the 2 percent target due to a revision to monetary easing. Some members, including this member, expressed the view that, with downside risks to prices from a long-term perspective remaining high, the risk of missing a chance to achieve the price stability target due to a hasty policy change was more significant. That said, one of these members added that due attention was required because the possibility that the persistence of price rises in Japan had been underestimated could not be ruled out, as were the cases with Europe and the United States. One member said that it was appropriate that the Bank continue with monetary easing while paying attention to its side effects. This member noted that, if continuation of monetary easing -- together with efforts made by the government and the business community -- led to a virtuous cycle between wages and prices, the functioning of the price mechanism would improve in the goods, services, and labor markets. On this basis, the member continued that, if it was likely that such a virtuous cycle would be observed within a certain period, it would be judged that the positive effects of continuation of monetary easing outweighed its side effects, even including those on the functioning of the price mechanism in financial markets. A different member also pointed out that it was important to weigh the positive effects of continuation of monetary easing, which would improve market functioning at the macroeconomic level by making it easier for adjustments in relative prices in the goods market through a certain degree of price rises, and the side effects it would have on the functioning of financial markets. Meanwhile, one member expressed the recognition that, in order to achieve the price stability target of 2 percent in a sustainable and stable manner, price rises accompanied by wage increases, rather than those caused by cost-push factors, were necessary. This member then said that it was desirable that moves to raise wages strengthen, and that wage increases exceeding price rises be achieved. Given this, a different member pointed out that it was necessary to bear in mind the level of wage increase that would create a balance for economic and price developments as a whole.

With respect to yield curve control, members agreed 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. They shared the view that there was no need to revise the conduct of yield curve control at this point, given, for example, dissipation of distortions on the yield curve having progressed and improvement in market functioning compared with a while ago. Meanwhile, one member expressed the opinion that, in conducting yield curve control, it was necessary to avoid a surge in interest rates as much as possible when speculation over an exit from monetary easing grew. In addition, a different member said that a revision to the treatment of yield curve control should be discussed at an early stage, since the cost was high, taking into account such factors as (1) preventing sharp fluctuations in interest rates in the future phase of an exit from the current monetary policy, (2) improvement in market functioning, and (3) enabling smoother dialogue with market participants. Some members, including this member, expressed the view that, if the Bank made revisions to its conduct of yield curve control in the future, attention would be warranted on the risk of producing unintended announcement effects that suggested monetary tightening. One member commented that a distinction must be made between the effects of lowering interest rates due to the framework of yield curve control itself and such effects stemming from large-scale JGB purchases, or stock effects. The member continued that the Bank should explain clearly that, even if it made revisions to its conduct of yield curve control, the stock effects would remain under the inflation-overshooting commitment.

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

With respect to the future conduct of monetary policy, members shared the basic stance that, with extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank would patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions, and that, by doing so, it would aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases. On this basis, they shared the view that the Bank would (1) continue with Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, aiming to achieve the price stability target, 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. In addition, members agreed that the Bank would continue to maintain the stability of financing, mainly of firms, and financial markets, and would not hesitate to take additional easing measures if necessary. One member expressed the recognition that, given signs of changes in price developments, it was becoming increasingly important for the Bank to communicate clearly to the market that monetary policy conduct, as a matter of course, depended on developments in economic activity and prices.

Members then discussed a review of monetary policy from a broad perspective, which the Bank had decided on conducting and announced at the April Monetary Policy Meeting. With regard to the themes of the review, they agreed that it was necessary to assess the effects of various unconventional monetary policy measures that had been implemented over the past 25 years in the context of interactions with developments in economic activity and prices at each point in time, and at the same time to analyze the impact of these measures on financial markets and the financial system, including their side effects. Furthermore, members shared the recognition that it was important to deepen its understanding on the effects of these measures, including (1) how various changes in the economic environment since the 1990s -- for example, the globalization of the economy and the declining and aging population in Japan -- had affected factors such as corporate and household behavior and the formation mechanisms of wages and prices, and (2) the implications that the effects of these changes had had for monetary policy. On this basis, they agreed that it was preferable to flexibly consider more specific themes of the analyses during the course of the review. One member expressed the opinion that examination of the positive and side effects of the Bank's unconventional monetary policy measures would be of great significance because the Bank had been the forerunner in terms of conducting such measures since the 1990s in the face of asset deflation as well as headwinds from overseas.

In addition, members concurred that, in reviewing monetary policy from a broad perspective, the Bank should incorporate diverse expertise in the review and take various initiatives with a view to enhancing the review's objectivity and transparency. They continued that such initiatives included not only conducting internal analyses, but also making use of existing series of materials, such as reports and surveys, holding interviews at the Bank's Head Office and branches, exchanging views at meetings with local and business leaders, inviting public comment concerning the Bank's releases, and holding workshops involving academics and other experts. One member expressed the view that it was vital that the Bank ask for the opinions of wide-ranging entities, such as business managers, households, and market participants. A different member expressed the intention to obtain feedback from business managers on occasions such as meetings with local and business leaders regarding such issues as sluggishness in firms' growth expectations and the ensuing changes in their spending behavior. Meanwhile, a few members expressed the view that, in order to make the review useful for future policy conduct, it was important to not only examine the positive and negative effects of the Bank's monetary policy measures but also make an assessment of each measure from the Bank's own perspective. One of these members commented that the criteria for assessing past monetary policy measures could differ depending on economic entities. The member continued that, nevertheless, the Bank should make an assessment solely in light of its mission and objective as a central bank.

Moreover, as for communication regarding the review of monetary policy, one member said that it was appropriate to launch a page on the Bank's website on the review and provide successive information on it as needed. A different member commented that it was desirable that the Bank provide communication on the review in an appropriate and timely manner, since it had attracted high attention from the public. Another member stated that it was important for the Bank to devise a way of communicating the results of the review so that they would be understandable not only to academics and experts but also to the wider public.

Based on the above discussions on the review of monetary policy, <u>the chairman</u> said that presenting the themes of the review and the Bank's thinking on the review process at the press conference after this meeting could be an option. All other members expressed agreement with the chairman's comment.

V. Remarks by Government Representatives

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

(1) The government would further accelerate its efforts toward a new form of capitalism and thereby expand the virtuous cycle of growth and distribution. In addition, it would continue to work toward achieving both economic revitalization and fiscal soundness by steadily promoting integrated economic and fiscal reforms and returning the expenditure structure to one in line with what was seen in normal times as it made a shift from the period of responding to COVID-19 to normal times.

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

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was recovering at a moderate pace, as socioeconomic activities normalized from the COVID-19 pandemic. However, full attention should be given to the downside risk to the Japanese economy due to a slowing down of overseas economies, as well as to the effects of such factors as price increases and fluctuations in the financial and capital markets.

(2) The government would formulate the Basic Policy on Economic and Fiscal Management and Reform 2023 and would accelerate its efforts toward realizing a new form of capitalism.

(3) The government would aim to realize the virtuous cycle of growth and distribution by, for example, working toward a scenario where price rises due to exogenous factors led to a virtuous cycle between wages and prices and toward a sustained expansion of domestic investment. Through these efforts, the government would lead the Japanese economy to break away from deflation by widely fostering awareness that the economy would not return to deflation.

(4) The government expected the Bank to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases, taking account of developments in economic activity and prices as well as financial conditions.

VI. 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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of April 27 and 28, 2023, for release on June 21.

Attachment
June 16, 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. Japan's economy has picked up, despite being affected by factors such as past high commodity prices. The pace of recovery in overseas economies has slowed. Although exports and industrial production have been affected by the developments in overseas economies, they have been more or less flat, supported by a waning of the effects of supply-side constraints. With corporate profits being at high levels on the whole, business fixed investment has increased moderately. The employment and income situation has improved moderately. Private consumption has increased moderately, despite being affected by price rises. Housing investment has been relatively weak. Public investment has increased moderately. Financial conditions have been accommodative on the whole, although weakness in firms' financial positions has remained in some segments. On the price front, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) is slower than a while ago, mainly due to the effects of pushing down energy prices from the government's economic measures, but it has been at around 3.5 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 have been more or less unchanged recently after rising.

3. Japan's economy is likely to recover moderately toward around the middle of fiscal 2023, supported by factors such as the materialization of pent-up demand, although it is expected to be under downward pressure stemming from past high commodity prices and a slowdown in the pace of recovery in overseas economies. Thereafter, as a virtuous cycle from income to spending gradually intensifies, Japan's economy is projected to continue growing at a pace above its potential growth rate. That said, the pace of growth is highly likely to decelerate gradually. The year-on-year rate of increase in the CPI (all items less fresh food) is likely 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. Thereafter, the rate of increase is projected to accelerate again moderately, albeit with fluctuations, as the output gap improves

and as medium- to long-term inflation expectations and wage growth rise, accompanied by changes in factors such as firms' price- and wage-setting behavior.

4. Concerning risks to the outlook, there are 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. Under these circumstances, it is necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices.

5. 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 CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner. The Bank will continue to maintain the stability of financing, mainly of firms, and financial markets, and will not hesitate to take additional easing measures if necessary.