Not to be released until 8:50 a.m. Japan Standard Time on Friday, December 22, 2023.

December 22, 2023

Bank of Japan

# Minutes of the Monetary Policy Meeting

## on October 30 and 31, 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 Monday, October 30, 2023, from 2:00 p.m. to 3:54 p.m., and on Tuesday, October 31, from 9:00 a.m. to 12:20 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

SAKAMOTO Motoru, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance
INOUE Hiroyuki, Vice-Minister for Policy Coordination, Cabinet Office

Reporting Staff

SHIMIZU Tokiko, Executive Director (Assistant Governor)
KAIZUKA Masaaki, Executive Director
KOUGUCHI Hirohide, Executive Director
SHIMIZU Seiichi, Executive Director
MASAKI Kazuhiro, Director-General, Monetary Affairs Department
IIJIMA Kota, Deputy Director-General, Monetary Affairs Department[2]
NAGANO Teppei, Head of Policy Planning Division, Monetary Affairs Department

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on December 18 and 19, 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 October 30 from 3:13 p.m. to 3:54 p.m.

NAKAMURA Koji, Director-General, Financial System and Bank Examination Department

FUJITA Kenji, Director-General, Financial Markets Department

OTANI Akira, Director-General, Research and Statistics Department

NAGAHATA Takashi, 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[2]

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[3]

### A. Market Operations in the Intermeeting Period

The Bank had been conducting market operations, including purchases of Japanese government bonds (JGBs), in accordance with the guideline for market operations and the guideline for conduct of yield curve control, both of which were decided at the previous meeting on September 21 and 22, 2023.[4] Specifically, it had carried out outright purchases of 10-year JGBs at 1.0 percent through the fixed-rate method and fixed-rate purchase operations of the cheapest-to-deliver (CTD) issues every business day. Moreover, the Bank had nimbly conducted unscheduled purchases of JGBs and the Funds-Supplying Operations against Pooled Collateral with a loan duration of five years through the variable-rate method. With these market operations, long-term interest rates had been at levels consistent with the Bank's guideline and the shape of the JGB yield curve 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 guidelines 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 0.010 to minus 0.064 percent; general collateral (GC) repo rates had been in the range of around minus 0.094 to minus 0.551 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had decreased somewhat.

The Tokyo Stock Price Index (TOPIX) had declined. Long-term interest rates (10-year JGB yields) had increased, mainly reflecting a rise in U.S. long-term interest rates, and had been in the range of around 0.725 to 0.880 percent. Many of the liquidity indicators in

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

[4] The short-term policy interest rate:

The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.

The long-term interest rate:

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

the JGB markets continued to improve, although they generally remained in a state of deterioration. In the foreign exchange market, the yen had depreciated against the U.S. dollar as the yield differential between Japan and the United States had widened due to a substantial rise in U.S. long-term interest rates. 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 had been firm, mainly led by private consumption, although it had been affected by policy interest rate hikes by the Federal Reserve. European economies kept slowing moderately as they continued to be affected by factors such as policy interest rate hikes by the European Central Bank (ECB). The Chinese economy remained on a moderate slowing trend, mainly owing to the effects of a slowdown in external demand and adjustments in the real estate market, but signs of a pick-up had been observed in some aspects, such as private consumption. The pace of improvement in emerging and commodity-exporting economies other than China had slowed on the whole; although domestic demand continued to improve moderately in these economies, exports had slowed.

As for the outlook, the pace of recovery in overseas economies was projected to remain slow for the time being. Thereafter, they were expected to grow moderately, albeit with variation across countries and regions. There were considerably high uncertainties regarding the outlook, such as the impact of policy interest rate hikes by central banks, developments in the Chinese economy, and how geopolitical tensions would unfold.

With respect to overseas financial markets, in the United States, long-term interest rates had risen significantly with market participants expecting prolonged monetary tightening by the Federal Reserve and a deterioration in the supply and demand conditions of U.S. Treasury securities. Stock prices had declined marginally on the whole, restrained by the rise in long-term interest rates, although prices for high-tech-related stocks had risen due to expectations of an improvement in their corporate profits. In Europe, long-term interest rates had also risen in line with those in the United States. Stock prices in Europe had decreased, mainly due to weak corporate results and increased tension over the situation in the Middle East. Meanwhile, currencies in many emerging economies had depreciated, in reflection of the rise in U.S. interest rates. Even while tension over the situation in the Middle East had increased, crude oil prices had declined over the intermeeting period since the market had mainly reflected the facts that some oil-producing economies had shown a stance of stabilizing the crude oil market and that U.S. crude oil inventories had risen.

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

1. Economic developments

Japan's economy had recovered moderately. Regarding the outlook, the economy was likely to continue recovering moderately for the time being, 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 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 for the time being. Thereafter, as overseas economies grew moderately, albeit with variation across countries and regions, they were likely to return to an uptrend.

Corporate profits had been at high levels on the whole, and business sentiment had improved moderately. In this situation, 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.

Private consumption had increased steadily at a moderate pace, despite being affected by price rises. The consumption activity index (CAI; real, travel balance adjusted) had been on an increasing trend until August 2023, albeit with monthly fluctuations. With regard to private consumption since September 2023, based on anecdotal information from firms and high-frequency indicators, this seemed to have continued on a moderate uptrend as the income situation had improved, and pent-up demand had also provided support. Consumer sentiment remained at an improved level on the back of a rise in income. Regarding the outlook, although such consumption was expected to be affected by price rises, it was projected to keep 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 risen moderately, albeit with fluctuations, mainly in the medical, healthcare, and welfare services industry, as well as the information and communications industry, with both these industries facing severe labor shortages. With economic activity normalizing, the number of non-regular employees had been on a moderate uptrend, mainly in the wholesale and retail trade as well as the face-to-face services industries. Nominal wages per employee had increased moderately, reflecting the recovery in economic activity and the results of the annual spring labor-management wage negotiations. With regard to the outlook, nominal employee income was likely to continue to see a clear increase in reflection of an acceleration in nominal wage growth. Partly as inflation declined, the year-on-year rate of decline in real employee income was projected to follow a decelerating trend; thereafter, the rate of change was likely to gradually turn positive.

As for prices, commodity prices had been more or less flat on the whole. With the impact of past high commodity prices gradually waning, the rate of change in the producer price index (PPI) relative to three months earlier had been more or less flat, partly due to an expansion of the government's gasoline subsidies. 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 in the range of 2.5-3.0 percent recently owing to the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices. Inflation expectations had risen moderately. With regard to the outlook, the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be above 2 percent through fiscal 2024, mainly due to the remaining effects of a pass-through to consumer prices of cost increases led by the past rise in import prices and the effects of the recent rise in crude oil prices.

## 2. Financial environment

Japan's financial conditions had been accommodative.

With a high level of demand for working capital stemming from elevated raw material costs, firms' demand for funds had increased moderately on the back of, for example, the recovery in economic activity as well as mergers and acquisitions of firms. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuance conditions for CP and corporate bonds had been favorable. 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 been at around 2 percent. Firms' financial positions had been favorable. The number of bankruptcies of firms had increased.

Meanwhile, the year-on-year rate of change in the monetary base had been at around 5.5 percent. That in the money stock had been at around 2.5 percent.

3. Financial system

Japan's financial system maintained stability on the whole.

Profits of major banks had been firm, mainly owing to increases in interest on loans as well as income from fees and commissions. Meanwhile, 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 firm as the amount outstanding of bank lending continued to increase, although they had decreased relative to last year, partly owing to a decline in profits from investment trusts due to cancellations. Meanwhile, their credit costs had been at low levels. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

With regard to the financial cycle, all of the 14 Financial Activity Indexes (FAIXs) that comprise the heat map in the *Financial System Report* had shown neither an overheating nor a contraction of financial activities. While the index for corporate credit had been at a relatively high level, this was mainly due to firms' behavior aimed at securing ample cash reserves, and therefore it 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 Staff Reports and Discussions by the Policy Board on the Review of Monetary Policy from a Broad Perspective

### A. Staff Reports

As part of the *Review of Monetary Policy from a Broad Perspective*, the staff was working on a research paper that described the basic thinking on central bank finances and monetary policy conduct.

The research paper would provide an overview of the following points: (1) central banks' balance sheets and profit structures; (2) the mechanisms through which the expansion and contraction of a central bank's balance sheet affects such factors as its profits; (3) the debate over central bank finances; and (4) recent developments in the finances of foreign central banks. It would then summarize (5) the basic thinking on central bank finances and monetary policy conduct. Specifically, the basic thinking was described as follows.

Under a fiat money system, confidence in the currency is not directly ensured by the assets held by the central bank or its financial soundness, but by the appropriate conduct of monetary policy with the aim of achieving price stability. Based on this premise, central banks are generally set up in such a way that they make profits from a somewhat longer-term perspective and, moreover, can supply their own means of payment and settlement. Therefore, even if the central bank temporarily makes losses or has negative equity, this does not impede its ability to conduct monetary policy. That said, this does not mean that the central bank can run up unlimited losses and negative equity. If the central bank's financial risks become a matter of undue attention and give rise to unnecessary confusion over monetary policy, there is a risk that this could lead to a decline in its credibility. Therefore, ensuring the soundness of the central bank's finances is important.

This paper was expected to be released within 2023. In addition, the staff would exchange views on these topics with experts at the first workshop regarding the review from a broad perspective, scheduled to be held on December 2023.

### B. Discussions by the Policy Board

Based on the above staff reports, members discussed the Bank's basic thinking on central bank finances and monetary policy conduct and other related matters.

Members shared the recognition that, with regard to the relationship between central bank finances and monetary policy conduct, it was appropriate for the Bank to continue with conducting proper policies based on the basic thinking that the staff had summarized, while also paying attention to financial soundness. On this basis, some members expressed the view that, although the Bank's profits could be subject to downward pressure temporarily, it was important to explain clearly to the public that such developments in profits would not set a limit on the Bank's conduct of appropriate monetary policy to achieve price stability. A few members expressed the view that it was necessary to carefully explain that central bank finances were in some ways different from those of private financial institutions or business corporations; for example, central banks generate seigniorage and can supply their own means of payment and settlement. One of these members added that, although profits and capital had declined at central banks such as those in the United States and Europe due to policy interest rate hikes, this had not affected their monetary policy conduct. In addition, this member pointed out that central banks' large-scale monetary easing should not be assessed merely on the basis of its effects on central banks' profits, but should be assessed in consideration of the effects on economic activity and prices as a whole. A few members expressed the view that it was extremely important to summarize the Bank's basic thinking and make it public at this point to avoid a situation where a central bank's financial risks became a matter of undue attention and gave rise to unnecessary confusion over monetary policy. A few other members pointed out that providing a more concrete explanation on appropriate occasions in the future could be one option.

## III. Summary of Discussions by the Policy Board on Economic and Financial Developments and the October 2023 *Outlook for Economic Activity and Prices*

### A. Current Situation of Economic Activity and Prices

With regard to global financial and capital markets, members concurred that market sentiment had become cautious as attention had been drawn to uncertainties over the U.S. and European monetary policies, as well as the outlook for the global economy. Many members mentioned the surge in U.S. long-term interest rates and expressed the view that future developments in these rates warranted close monitoring. One member said that due attention should be paid to the continuing outflows of portfolio investment from emerging economies.

Members shared the recognition that the pace of recovery in overseas economies had slowed. One member expressed the view that the variation in the pace of recovery across countries and regions had become larger.

Members agreed that the U.S. economy had been firm, mainly led by private consumption, although it had been affected by policy interest rate hikes by the Federal Reserve. Some members pointed out that uncertainties regarding economic developments remained, despite overall firmness in U.S. economic indicators and heightened expectations for a soft landing.

Members shared the recognition that European economies kept slowing moderately as they continued to be affected by factors such as policy interest rate hikes by the ECB. A few members expressed the view that economic indicators, including GDP statistics and the Purchasing Managers' Index (PMI), had been relatively weak and showed signs of stagnation in these economies.

Members shared the view that the Chinese economy remained on a moderate slowing trend, mainly owing to the effects of the slowdown in external demand and adjustments in the real estate market, but signs of a pick-up had been observed in some aspects, such as private consumption. A few members expressed the view that the Chinese government had started to strengthen its stance to support the economy through fiscal policy measures to some extent. Meanwhile, a different member pointed out that growth expectations might decline, mainly reflecting the sluggish real estate market and U.S.-China tension, and thus households and private firms might tend to suppress their spending.

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.

Members agreed that financial conditions in Japan had been accommodative. In addition, they shared the view that firms' funding costs had been hovering at extremely low levels and that the environment for external funding had been favorable.

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 agreed that Japan's economy had recovered moderately. One member expressed the recognition that, while downward pressure from overseas economies remained, the economy continued on an improving trend; this was shown by, for example, the fact that firms' appetite for investment had been solid on the back of low levels of real interest rates and high levels of corporate profits, and that business sentiment of nonmanufacturing firms and private consumption had been on a recovery trend. A different member expressed the view that, although consumption had been pushed down by higher prices, demand had been increasingly resilient.

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 noted that net exports had been on a rising trend, partly brought about by an expansion in demand of inbound tourism and a shift in demand from imported goods to domestic goods due to the yen's depreciation.

Members agreed that business fixed investment had increased moderately, with corporate profits being at high levels on the whole. One member mentioned the possibility that firms' growth expectations had been rising, considering that the business fixed investment plans in the September 2023 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) had marked high growth. However, this member added that there was concern over the effects of somewhat weak domestic and overseas supply and demand conditions for products for large manufacturing enterprises that were shown in the diffusion indices (DIs) in the *Tankan*. Moreover, one member noted that actual business fixed investment had been sluggish, although the plans in the *Tankan* had been strong since the previous fiscal year. The member then expressed the recognition that this might be due to weak demand, mainly for IT and machinery from Asian economies, and high uncertainties in the external environment.

Members concurred that private consumption had increased steadily at a moderate pace, despite being affected by price rises. One member expressed the view that, although households' spending behavior had become more defensive due to price rises, private consumption had been resilient, supported by expectations for wage increases and firms' various measures to promote sales. One member mentioned that, while some demand had shifted to relatively low-price products, demand for high value-added products with high prices had been firm. This member then expressed the view that private consumption as a whole had returned to a moderate and stable increasing trend. A different member pointed out that it was necessary to pay attention to the effects of high prices and the sustainability of pent-up demand, especially since some confidence indicators, for example, had shown weakness recently.

Members shared the view that the employment and income situation had improved moderately.

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 in the range of 2.5-3.0 percent recently owing to the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices. They shared the recognition that the recent inflation rate had been higher than the forecasts in the July 2023 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report). As background to this, many members pointed out that the effects of the pass-through led by the past rise in import prices had become stronger than expected. One of these members noted that the upward revisions in the outlook for the inflation rate since April 2023 were due to price revisions spreading among firms to a greater extent than expected, including in terms of how frequently and how much prices were raised. The member then expressed the recognition that an economic recovery after the pandemic and expectations for wage increases had supported private consumption, which had encouraged firms to pass on cost increases. Meanwhile, members concurred that inflation expectations had risen moderately. One member expressed the view that inflation expectations had risen on the whole, as shown by the indicators for inflation expectations of market participants and economists, in addition to those of households and firms.

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

In formulating the October 2023 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 continue recovering moderately for the time being, 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 the slowdown in the pace of recovery in overseas economies; thereafter, pent-up demand and the effects of the economic measures were projected to wane, but the economy was expected to continue growing at a pace above its potential growth rate as a virtuous cycle from income to spending gradually intensified in the overall economy. One member expressed the view that the domestic economy was likely to recover moderately, as private consumption picked up gradually with the effects of the pass-through due to cost-push factors waning. A different member commented that private consumption had been supported so far by pent-up demand and by household savings that had accumulated as a result of pandemic-related restrictions. The member continued that it was crucial that household income increase, and the key for this was developments in wage hikes in spring 2024. Meanwhile, one member expressed the view that the key to enhancing Japan's economic growth was the growth of startups, which create new markets and lead the growth in the economy, and improvement in their funding conditions.

Members agreed that exports and production were projected to be more or less flat for the time being, affected by the slowdown in the pace of recovery in overseas economies; subsequently, as these economies grew moderately, albeit with variation across countries and regions, they were likely to return to an uptrend. 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 followed an improving trend and accommodative financial conditions provided support, business fixed investment was likely 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.

Members agreed that, although private consumption was expected to be affected by price rises, it was projected to keep increasing moderately for the time being; this was because pent-up demand was likely to materialize, partly supported by household savings that had accumulated as a result of pandemic-related restrictions, and because factors such as improvement in consumer sentiment, which mainly reflected a rise in wage growth, were expected to provide support. They also shared the view that, thereafter, although private consumption was likely to be affected by a slowdown in the materialization of pent-up demand and a waning of the positive contribution of the government's various measures, it was expected to keep increasing moderately, supported by the rise in employee income.

Members shared the view that employment was likely to continue rising, but the pace of increase was projected to moderate gradually; this was because it would become more difficult for labor supply to increase, with labor force participation of women and seniors having advanced to a high degree thus far. They continued that, nevertheless, as these developments would lead to an increased tightening of labor market conditions during the course of the economic recovery, wage growth was expected to increase as a trend, partly reflecting price rises, and employee income was projected to continue increasing. On this point, one member commented that, in order to achieve sustained wage increases and a virtuous cycle of growth and distribution, it was necessary that firms' earning power strengthen -- particularly for small and medium-sized firms, some of which had lagged behind in reforms -- and that their capacity to raise wages increase. The member continued that attention was warranted on the extent to which listed firms' earnings estimates for fiscal 2023 would be revised upward in their announcements of financial results for the first half of the fiscal year and whether the rises in earnings would have increasingly positive effects on small and medium-sized firms.

Based on this discussion, members shared the recognition that, comparing the projections with those in the July 2023 Outlook Report, the projected real GDP growth rate for fiscal 2023 was higher, reflecting the actual data showing that the growth rate thus far had been higher than was previously projected, mainly due to a decline in imports, but the basic view on future economic developments was unchanged.

Members then discussed the baseline scenario of the outlook for Japan's price developments. They agreed that the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be above 2 percent through fiscal 2024, mainly due to the remaining effects of the pass-through to consumer prices of cost increases led by the past rise in import prices and the effects of the recent rise in crude oil prices; as for fiscal 2025, the rate of increase in the CPI was projected to decelerate owing to dissipation of these effects. In addition, they shared the view that, toward the end of the projection period, underlying CPI inflation was likely to increase gradually toward achieving the price stability target, as the output gap turned positive and as medium- to long-term inflation expectations and wage growth rose.

Members shared the recognition that, comparing the projections with those in the July 2023 Outlook Report, the projected year-on-year rate of increase in the CPI (all items less fresh food) for fiscal 2023 was somewhat higher, mainly because, while the government's economic measures would push down energy prices, cost increases had been passed on to consumer prices to a greater extent than expected; the projected rate of increase for fiscal 2024 was significantly higher, mainly due to the effects of the recent rise in crude oil prices and to a waning of the effects of the economic measures pushing down energy prices of the previous year. One member noted that, although the year-on-year rate of increase in the CPI had started to decelerate, this had been more moderate than projected, since the pass-through of cost increases to selling prices had spread among firms to a greater extent than expected. A different member expressed the view that firms' forecasts for output prices remained high, according to the September *Tankan*. Meanwhile, one member said that the upward revision to the CPI projection for fiscal 2024 was based on the assumption that the effects of the government's measures to reduce the household burden of higher gasoline prices, electricity charges, and gas charges would dissipate in spring 2024.

Members shared the view that, toward the end of the projection period, in order for the outlook that underlying inflation would increase toward 2 percent to materialize, it needed to be accompanied by an intensified virtuous cycle between wages and prices. On this basis, they agreed that the likelihood of realizing this outlook had been rising gradually but that uncertainties surrounding it were high; thus, sustainable and stable achievement of the price stability target was not yet envisaged with sufficient certainty at this point. One member pointed out that, to achieve the 2 percent target in a sustainable and stable manner, after cost-push factors disappeared, the virtuous cycle between wages and prices needed to keep operating in a self-sustaining manner. One member commented that firms had been setting wages and prices based on a combination of (1) a pass-through of a rise in import prices, (2) wage hikes, (3) a pass-through of an increase in personnel expenses, and (4) diversifying pricing strategies and increasing the value-added of products. This member continued, however, that developments in all of these factors remained mixed, and underlying inflation continued to warrant careful examination. Meanwhile, a different member was of the view that, considering movements in inflation expectations and underlying inflation, it seemed that achievement of the price stability target was coming into sight, and the second half of fiscal 2023 would be an important period for determining whether the target would be achieved. On the other hand, one member raised the concern that, since small and medium-sized firms' capacity to raise wages was limited, households' thriftiness might gradually increase and affect prices.

Many members expressed the recognition that, in order to confirm that the virtuous cycle between wages and prices had intensified, it was important to assess whether wage increases that reflected actual inflation would be achieved in the annual spring labor-management wage negotiations in 2024, and whether the wage increases would feed through to prices. With regard to wage developments, a few members expressed the view that, as shown by the notable wage increase in the annual spring labor-management wage negotiations in 2023, there had been a change in firms' behavior of leaving wages unchanged, which had lasted since the bursting of the bubble economy. Moreover, a few members mentioned that the wage growth to be agreed in next year's base pay negotiations was expected to exceed that agreed this year, as suggested by the fact that this fiscal year's inflation outlook, which was a starting point for the negotiations, was higher than last year. One of these members expressed the view that, given the current situation for prices and corporate profits, if wages did not rise next year, the labor share would decline, and thus, in consideration of balance in the economy, it was highly likely that a certain degree of wage hikes would be seen. On this basis, this member added that the upward revision to the outlook for the inflation rate for fiscal 2024 presented in the October Outlook Report would serve as a factor that could raise the possibility that wages would continue to increase to a certain degree in fiscal 2025 as well. On the other hand, one member, pointing to the continued substantial wage hikes immediately after the first oil shock and the subsequent sharp decline in the wage growth rate, expressed the recognition that an improvement in firms' earning power was essential for sustained wage hikes.

With respect to spillovers from wage increases to prices, one member noted that, at this point, firms' behavior of reflecting wage increases in output prices had not been fully captured by statistics. A different member commented that notable price increases in CPI services were limited merely to such items as accommodation fees, other than such items as meals outside the home, for which raw material costs had been increasing, and some firms had said that there was difficulty in passing on personnel expenses to output prices. That said, a few members, including this member, expressed the view that, given the high levels of corporate profits -- including those of small and medium-sized firms -- there was a possibility that higher personnel expenses had been gradually reflected in output prices in reality. One member, noting that the year-on-year rate of increase in the services producer price index (SPPI), which is sticky and tends to reflect wage developments, had accelerated steadily, said that close attention was required on whether upward pressure on prices stemming from wage increases would rise further, including among small and medium-sized firms.

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 likely to decelerate, due to a gradual waning of the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices, and subsequently be at around 2 percent toward the end of the projection period.

Members then discussed upside and downside risks to economic activity and prices. They concurred that there were extremely high uncertainties surrounding Japan's economic activity and prices, including developments in overseas economic activity and prices, developments in commodity prices, and domestic firms' wage- and price-setting behavior. 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 import prices, particularly those 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, some members pointed out that, regarding the U.S. economy, expectations for a soft landing had heightened, but there were growing risks, including long-term interest rates remaining high and adjustments in asset prices. One member said that there were extremely high uncertainties over the Chinese economy, as a real estate downturn and a disinflationary situation continued, and attention was warranted on the impact that this would have on Japan through the real economy. As for developments in import prices, particularly those of commodities, including grains, one member pointed out that, if energy and food prices rose again -- partly against the background of heightened geopolitical risks in, for example, the Middle East -- there were risks such as sluggish private consumption due to a continuous decrease in real wages and a decline in exports that reflected a slowdown in overseas economies. A few members expressed the view that, if the effects of the pass-through of the rise in import prices to consumer prices became more prolonged, households' real income would be pushed down and their appetite for spending would be affected. These members continued that this could affect firms' price-setting behavior.

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' wage- and price-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 prices and domestic prices. One member pointed out that the upward revision to the outlook for the inflation rate for fiscal 2024 was mainly due to cost-push factors, and this meant that whether or not a transmission mechanism between prices and wages was operating had yet to be confirmed; thus, the outlook remained extremely uncertain. A different member said that, considering the experiences of the United States and Europe, it was necessary to keep in mind that inflation accompanied by wage increases could exhibit stronger inertia than expected.

With regard to the risk balance, members shared the recognition that risks to economic activity were generally balanced for fiscal 2023 and 2024 but were skewed to the downside for fiscal 2025. They also shared the recognition that risks to prices were skewed to the upside for fiscal 2023. Members agreed that, in terms of prices, it should be noted that, mainly due to the experience of prolonged low growth and deflation, the behavior and mindset based on the assumption that wages and prices would not increase easily had taken hold in society; considering this, it was important to closely monitor whether a virtuous cycle between wages and prices would intensify.

**IV. 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 sustainable and stable achievement of the price stability target accompanied by wage increases was not yet envisaged with sufficient certainty at this point, and thus the Bank needed to patiently continue with monetary easing under yield curve control, aiming to support Japan's economic activity and thereby facilitate a favorable environment for wage increases. A few members expressed the recognition that, as there was still some distance to go before achieving the price stability target with the virtuous cycle between wages and prices, it was important for the Bank to keep supporting the moves to increase wages through continuation of monetary easing. They continued that, in this situation, the Bank should maintain the framework of yield curve control. A different member noted that the Bank had taken a position to continue with the framework of yield curve control and the negative interest rate policy, at least as long as it was necessary for maintaining the price stability target in a stable manner; to confirm that this aim had been achieved, it was necessary to carefully examine future developments in wage hikes and whether the virtuous cycle between wages and prices was operating from both sides. Meanwhile, one member expressed the view that, given, for example, recent developments in inflation indicators and remarks by corporate executives in view of the annual spring labor-management wage negotiations in 2024, the likelihood of achieving the price stability target in a sustainable and stable manner seemed to have risen further than before. The member continued that it therefore would be necessary for the Bank to gradually adjust the degree of monetary easing down from its maximum level.

With respect to yield curve control, members agreed that long-term interest rates had been at levels consistent with the guideline for market operations, as the Bank had been conducting yield curve control flexibly since the July 2023 meeting. A few members expressed the view that improvements in the degree of market functioning had been observed since the decision at the July meeting to conduct yield curve control with greater flexibility.

On this basis, many members pointed out that Japanese long-term interest rates had been under upward pressure that mainly reflected the effects of the rise in U.S. long-term interest rates. A few members expressed the view that price developments in Japan were also likely to be a factor in pushing up Japanese long-term interest rates. One member expressed the recognition that the recent rise in interest rates was not due to speculative moves by overseas market participants, as was the case in 2022, and it was highly plausible that domestic long-term interest rates would increase to 1.0 percent, the offer rate for fixed-rate purchase operations for consecutive days, depending on the course of U.S. long-term interest rates and price developments in Japan. In addition, one member noted that, due to a rise in inflation, investors' expectations of interest rates had risen recently, which had begun to affect firms' long-term financing. Many members, including this member, expressed the recognition that continued strict control of long-term interest rates could entail large side effects on financial markets and corporate financing. Meanwhile, some members expressed the view that the effects of monetary easing had been sufficiently maintained as inflation expectations had risen moderately and real interest rates remained at low levels.

Based on the above discussions, most members shared the view that, with extremely high uncertainties surrounding economies and financial markets at home and abroad, it was appropriate for the Bank to increase the flexibility in the conduct of yield curve control so that long-term interest rates would be formed smoothly in financial markets in response to future developments. One member pointed out that, under yield curve control, the Bank had originally controlled interest rates mainly through adjusting the amount of its JGB purchases, rather than conducting fixed-rate purchase operations for consecutive days. The member then expressed the view that, considering the current situation, it might be appropriate for the Bank to further increase the flexibility in its strict control through fixed-rate purchase operations for consecutive days taken since spring 2022. A different member noted that, if long-term interest rates continued to be strictly capped through such operations, there was an increasing risk of large side effects on market functioning and market volatility. One member was of the view that, although the Bank had gradually reduced the degree of control over the yield curve since December 2022, the effects of monetary easing had been sufficiently maintained as real interest rates had been significantly low. The member continued that, given this, to strike a balance between the positive effects and side effects of monetary easing at this stage, it was appropriate for the Bank to increase the flexibility in the conduct of yield curve control. Moreover, a few members expressed the recognition that further increasing the flexibility in the conduct of yield curve control at this point would lead to improving the resilience of this framework by reducing the chance of speculative moves. One member expressed the view that increasing the flexibility was quite favorable not only in terms of constraining the materialization of side effects and thereby effectively continuing with monetary easing until an exit, but also in terms of smoothly proceeding with normalization of monetary policy while maintaining monetary easing after the future exit. This member then pointed out that, in increasing the flexibility in the conduct of yield curve control, it was important to let interest rates be determined by the market as much as possible while preventing sharp fluctuations in them, and to work toward ensuring and recovering liquidity. A different member commented that it was necessary to take account of encouraging price formation by utilizing market functioning and of improving liquidity in bond markets. Meanwhile, one member said that it was still unclear whether wage increases that exceeded price rises would be achieved, and revising yield curve control at this time could be perceived as monetary tightening. On this basis, the member added that, in order not to lose the opportunity to achieve a virtuous cycle between wages and prices, it was appropriate for the Bank to patiently continue with the current monetary easing for the time being.

In response to the members' views, the chairman requested that the staff explain what responses could be considered with regard to further increasing the flexibility in the conduct of yield curve control that had been pointed out by the members.

The staff provided the following explanation.

(1) Treatment of further increasing the flexibility in the conduct of yield curve control could be as follows.

(a) The Bank would maintain the guideline for market operations, in which the short-term policy interest rate was set at minus 0.1 percent and the target level of 10-year JGB yields was around 0 percent.

(b) The Bank would regard the upper bound of 1.0 percent for 10-year JGB yields as a reference in its market operations.

The Bank would discontinue using the current range of around plus and minus 0.5 percentage points from the target level as references.

The Bank would no longer strictly cap interest rates by conducting fixed-rate purchase operations for consecutive days, which it had offered every business day.

(c) In order to encourage the formation of a yield curve that was consistent with the guideline for market operations, the Bank would continue with large-scale JGB purchases and make nimble responses for each maturity by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.

The Bank would determine the offer rate for fixed-rate purchase operations each time, taking account of market rates and other factors.

(2) Specifics of further increasing the flexibility in the conduct of yield curve control could be as follows.

(a) The Bank would continue with its current large-scale JGB purchases.

(b) Although it would not set a strict upper limit on long-term interest rates, in the case where upward pressure on long-term interest rates heightened, the Bank would make nimble responses by, for example, increasing the amount of JGB purchases, and by conducting unscheduled purchases of JGBs, fixed-rate purchase operations, and the Funds-Supplying Operations against Pooled Collateral.

In reaction to the staff's explanation, most members shared the view that the responses presented by the staff regarding further increasing the flexibility in the conduct of yield curve control and its specifics were appropriate. Some members commented that raising the upper bound on 10-year JGB yields was not appropriate, as it was likely to raise market participants' expectations of interest rates; rather, it would be appropriate for the Bank to regard the upper bound of 1.0 percent as a reference and nimbly increase JGB purchases when long-term interest rates rose closer to that upper bound. On this basis, members shared the recognition that, under the conduct of yield curve control with the upper bound of 1.0 percent as a reference, long-term interest rates were not expected to substantially exceed 1.0 percent.

Members also discussed the Bank's communication with respect to the above measure. Some members expressed the recognition that it was necessary to emphasize that the Bank would patiently continue with monetary easing under the yield curve control framework. One of these members noted that, in order to avoid unnecessary market speculation, it was important for the Bank to clearly explain to the public that its policy decisions were based on the outlook for economic activity and prices. This member added that it was necessary to avoid encouraging speculative transactions by giving the impression that the Bank was forced to make policy decisions to follow fluctuations in market rates. Meanwhile, one member commented that whether sustainable and stable achievement of the price stability target would come in sight depended on an assessment of factors such as future wage developments; nevertheless, the Bank should not strongly deny the possibility that the responses presented above and the decision to use greater flexibility in July would lead to an exit from the current monetary policy. In response, one member said that it was necessary to clearly indicate that the above measure was not intended as preparation for discontinuing yield curve control and the negative interest rate policy. A different member noted that it would be possible to conclude in hindsight that making adjustments reflecting rises in inflation expectations under the yield curve control framework would also contribute to a smooth transition in the future; however, the Bank's measures taken since December 2022 had been decided solely with the aim of continuing monetary easing under the existing framework. Another member commented that, with the future exit from the current monetary policy in mind, it was important for the Bank to provide communication to the market in preparation for a "world where interest rates exist" since interest rates had been low for so long. This member added that, in terms of the predictability of its moves toward such an exit, the Bank should clearly communicate its thinking behind the conduct of monetary policy.

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 set the following guideline. First, as for the short-term policy interest rate, it would apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. Second, as for the long-term interest rate, the Bank would purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields would remain at around 0 percent.

Moreover, with respect to the conduct of yield curve control, most members concurred that it was appropriate that the Bank (1) regard the upper bound of 1.0 percent for 10-year JGB yields as a reference in its market operations, and (2) in order to encourage the formation of a yield curve that was consistent with the guideline for market operations, continue with large-scale JGB purchases and make nimble responses for each maturity by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.

On this point, one member, while being in favor of the idea of further increasing the flexibility in the conduct of yield curve control, expressed the opinion that it was more desirable to increase the flexibility after confirming a rise in firms' earning power from sources such as the *Financial Statements Statistics of Corporations by Industry*.

Members 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.

**V. Remarks by Government Representatives**

Based on the above discussions, the government representatives requested that the chairman adjourn the meeting. The chairman approved the request. (The meeting adjourned at 11:30 a.m. and reconvened at 11:50 a.m.)

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

(1) With regard to the proposals made at this meeting, the government expected the Bank to make a proper judgment from the perspective of conducting appropriate monetary policy.

(2) In accordance with the prime minister's instructions, the government was formulating economic measures. It aimed to swiftly compile the supplementary budget for fiscal 2023 after the measures were decided and to carry out all possible measures.

(3) The government expected the Bank to conduct appropriate monetary policy toward achieving the price stability target in a sustainable and stable manner while closely cooperating with the government.

The representative from the Cabinet Office made the following remarks.

(1) The government was working on formulating new economic measures and expected them to get the Japanese economy on track toward sustained growth while solving social challenges, such as by protecting people's daily lives from high prices, by supporting sustained wage increases for firms, including regional as well as small and medium-sized ones, and by promoting domestic investment toward enhancing growth potential and the supply capacity.

(2) The government considered that the proposals made at this meeting were aimed at enhancing the sustainability of monetary easing measures that were necessary for the Bank to achieve the price stability target in a sustainable and stable manner. It deemed it important for the Bank to carefully explain to the public its intention regarding the changes proposed at the meeting.

(3) The government expected the Bank to continue to conduct appropriate monetary policy toward achieving 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:**

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 0 percent.

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 Conduct of Yield Curve Control

To reflect the majority view of the members, the chairman formulated the following proposal on the conduct of yield curve control and put it to a vote.

The Policy Board decided the proposal by a majority vote.

**The Chairman's Policy Proposal on the Conduct of Yield Curve Control:**

The conduct of yield curve control for the intermeeting period will be as follows.

The Bank will regard the upper bound of 1.0 percent for 10-year JGB yields as a reference in its market operations, and in order to encourage the formation of a yield curve that is consistent with the guideline for market operations, it will continue with large-scale JGB purchases and make nimble responses for each maturity by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.

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

While Nakamura Toyoaki was in favor of the idea of further increasing the flexibility in the conduct of yield curve control, he dissented, considering that it was more desirable to increase the flexibility after confirming a rise in firms' earning power from sources such as the *Financial Statements Statistics of Corporations by Industry*.

**C. 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.

**D. 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. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the October 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 November 1.

## VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of September 21 and 22, 2023, for release on November 6.

Attachment
October 31, 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 to further increase the flexibility in the conduct of yield curve control. Specifically, while the Bank will maintain the target level of 10-year Japanese government bond (JGB) yields at around zero percent, it will conduct yield curve control with the upper bound of 1.0 percent for these yields as a reference and will control the yields mainly through large-scale JGB purchases and nimble market operations. In this manner, the Bank will patiently continue with monetary easing.

   The Bank decided on the following regarding yield curve control and the guidelines for asset purchases.

   (1) Yield curve control

   a) The Bank decided, by a unanimous vote, 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 JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

   b) Conduct of yield curve control (an 8-1 majority vote) [Note]

      The Bank will regard the upper bound of 1.0 percent for 10-year JGB yields as a reference in its market operations, and in order to encourage the formation of a yield curve that is consistent with the above guideline for market operations, it will continue with large-scale JGB purchases and make nimble responses for each maturity by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.[5]

(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. The outlook for Japan's inflation rate, measured in terms of the consumer price index (CPI), has been revised upward from the July 2023 *Outlook for Economic Activity and Prices*. This is mainly due to the prolonged effects of a pass-through to consumer prices of cost increases led by the past rise in import prices and the recent rise in crude oil prices. Toward the end of the projection period, the Bank expects that underlying CPI inflation will increase gradually toward achieving the price stability target of 2 percent, while this increase needs to be accompanied by an intensified virtuous cycle between wages and prices. The Bank will patiently continue with monetary easing under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, aiming to support Japan's economic activity and thereby facilitate a favorable environment for wage increases. It will continue to closely examine developments in economic activity and prices, including the virtuous cycle between wages and prices, from the perspective of sustainable and stable achievement of the price stability target.

   Meanwhile, with extremely high uncertainties surrounding economies and financial markets at home and abroad, it is appropriate for the Bank to increase the flexibility in the conduct of yield curve control, so that long-term interest rates will be formed smoothly in financial markets in response to future developments. In this regard, currently, the Bank considers that strictly capping long-term interest rates by fixed-rate purchase operations at 1.0 percent for consecutive

[5] The Bank will determine the offer rate for fixed-rate purchase operations each time, taking account of market rates and other factors.

days, which it has offered every business day in principle, will have strong positive effects, but could also entail large side effects. Given this, it decided to conduct yield curve control mainly through large-scale JGB purchases and nimble market operations.

3. 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 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.

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[Note] Voting for the action: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki. Voting against the action: NAKAMURA Toyoaki. While Nakamura Toyoaki was in favor of the idea of further increasing the flexibility in the conduct of yield curve control, he dissented, considering that it was more desirable to increase the flexibility after confirming a rise in firms' earning power from sources such as the *Financial Statements Statistics of Corporations by Industry*.