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December 22, 2021

Bank of Japan

Minutes of the Monetary Policy Meeting

on October 27 and 28, 2021

(English translation prepared by the Bank's staff based on the Japanese original)

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Wednesday, October 27, 2021, from 2:00 p.m. to 4:21 p.m., and on Thursday, October 28, from 9:00 a.m. to 11:38 a.m.[1]

Policy Board Members Present

Mr. KURODA Haruhiko, Chairman, Governor of the Bank of Japan

Mr. AMAMIYA Masayoshi, Deputy Governor of the Bank of Japan

Mr. WAKATABE Masazumi, Deputy Governor of the Bank of Japan

Mr. SUZUKI Hitoshi

Mr. KATAOKA Goushi

Mr. ADACHI Seiji

Mr. NAKAMURA Toyoaki

Mr. NOGUCHI Asahi

Ms. NAKAGAWA Junko

Government Representatives Present

Mr. OIE Satoshi, State Minister of Finance, Ministry of Finance[2]

Mr. ONO Heihachiro, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]

Mr. INOUE Hiroyuki, Vice-Minister for Policy Coordination, Cabinet Office

Reporting Staff

Mr. UCHIDA Shinichi, Executive Director

Mr. YAMADA Yasuhiro, Executive Director

Ms. SHIMIZU Tokiko, Executive Director (Assistant Governor)

Mr. KAIZUKA Masaaki, Executive Director

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on December 16 and 17, 2021, as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Mr. Oie was present on October 28.

[3] Mr. Ono was present on October 27.

Mr. FUKUDA Eiji, Deputy Director-General, Monetary Affairs Department[4]

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

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

Mr. OTANI Akira, Director-General, Financial Markets Department

Mr. KAMEDA Seisaku, Director-General, Research and Statistics Department

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

Mr. HIROSHIMA Tetsuya, Director-General, International Department

Secretariat of the Monetary Policy Meeting

Mr. NAKAJIMA Takeshi, Director-General, Secretariat of the Policy Board

Mr. HONDA Hisashi, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

Mr. NAKASHIMA Motoharu, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

Mr. ICHISE Yoshitaka, Senior Economist, Monetary Affairs Department

Mr. NAGAE Shinichiro, Senior Economist, Monetary Affairs Department

Mr. ANDO Masatoshi, Senior Economist, Monetary Affairs Department

[4] Messrs. Fukuda and Nakashima were present on October 27 from 3:06 p.m. to 4:21 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 September 21 and 22, 2021, the Bank had been conducting purchases of Japanese government bonds (JGBs).[6] In this situation, 10-year JGB yields had been at around 0 percent, and the shape of the JGB yield curve had been consistent with the guideline for market operations.

With a view to supporting financing, mainly of firms, and maintaining stability in financial markets, the Bank had taken the following measures: purchases of CP and corporate bonds and conduct of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19), both under the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19); flexible provision of ample funds, mainly through purchases of JGBs and conduct of the U.S. dollar funds-supplying operations; and purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments generally had been in negative territory. With regard to interest rates on overnight instruments, the uncollateralized call rate had been in the range of around minus 0.01 to minus 0.05 percent; general collateral (GC) repo rates had been in the range of around minus 0.08 to minus 0.13 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been more or less flat.

While global financial markets had been nervous, the Tokyo Stock Price Index (TOPIX) had declined to a relatively large extent into early October 2021; thereafter, however, it rose somewhat along with U.S. and European stock prices. Long-term interest rates had been at around 0 percent under yield curve control. In the foreign exchange market, the yen

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

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

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

had depreciated somewhat significantly against both the U.S. dollar and the euro, mainly due to rises in U.S. and European interest rates.

C. Overseas Economic and Financial Developments

Overseas economies had recovered on the whole, albeit with variation across countries and regions. Business sentiment globally had improved, and the production level of the manufacturing industry and the trade volume had been significantly above the pre-pandemic levels seen around spring 2020. Advanced economies continued to be the driving force for the recovery in overseas economies, although downward pressure had been exerted on the Chinese economy and some emerging economies. As for the outlook, with the impact of COVID-19 waning gradually, overseas economies were likely to continue recovering on the whole, partly supported by aggressive macroeconomic policies taken mainly in advanced economies. That said, the pace of recovery was highly likely to be uneven across countries, primarily due to the different paces in the vaccine rollout. In addition, there remained high uncertainties over developments in COVID-19 and supply-side constraints, as well as their impact on overseas economies.

With regard to developments in overseas economies by region, the U.S. economy had recovered. Private consumption had increased, mainly on the back of the government's economic measures, although the pace of improvement in services consumption had decelerated -- reflecting the spread of COVID-19 variants in summer 2021 -- and automobile sales had declined due to a semiconductor shortage. The number of employees had increased, but the degree of recovery remained moderate relative to the pace of resumption in economic activity. As for the corporate sector, in a situation where business sentiment kept improving, business fixed investment had increased, mainly for machinery investment. Regarding price developments, the personal consumption expenditure (PCE) deflator had marked a relatively high increase on a year-on-year basis due to the base effect of its decline in 2020 and to the effects of supply-side constraints stemming from the resumption of economic activity.

The European economy had recovered. Private consumption kept recovering, particularly for services consumption, with economic activity continuing to resume. With regard to the corporate sector, business sentiment had improved, mainly in the services industry, while exports, particularly of transport equipment, had declined. Production had followed a pick-up trend. Under these circumstances, business fixed investment had picked up. As for prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) had been above 2 percent, mainly due to the base effect of its decline in 2020 and the recent rise in energy prices.

The Chinese economy continued to recover as a trend, although the pace of improvement had decelerated. Private consumption had increased as a trend, mainly against the background of an improvement in the employment and income situation, although the impact of COVID-19 remained in part and automobile sales had slowed due to the impact of the semiconductor shortage. Fixed asset investment had generally been more or less flat, mainly because real estate investment had decelerated in reflection of, for example, firms' debt problems. Under these circumstances, production had slowed, partly reflecting power supply issues and the effects of supply-side constraints due to the semiconductor shortage.

Emerging economies other than China had picked up on the whole, supported by firm external demand, while downward pressure exerted on some countries and regions due to the spread of COVID-19 during the summer had been waning. The NIEs had been on a recovery trend, led by an increase in exports, although some economies continued to be affected by the spread of COVID-19. With the number of confirmed new cases declining, the ASEAN countries had seen a pick-up in economic activity as downward pressure on domestic demand had waned and signs of exports turning upward had been seen.

With respect to overseas financial markets, stock prices in advanced economies had risen over the intermeeting period, mainly on the back of favorable corporate results. Long-term interest rates had increased clearly, owing to emerging speculation that the Federal Reserve and the Bank of England would reduce monetary accommodation earlier than expected, mainly reflecting the recent elevated inflation rates and the current rise in international commodity prices. In the foreign exchange market, currencies in emerging economies had depreciated slightly, mainly due to the rise in U.S. interest rates. Meanwhile, crude oil prices had risen significantly, reflecting growing concerns over a tightening of supply-demand conditions given, for example, the continuation of a coordinated reduction in oil production by the OPEC Plus member countries.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had picked up as a trend, although it remained in a severe situation due to the impact of COVID-19 at home and abroad. For the time being, downward pressure stemming from COVID-19 was likely to remain on services consumption, and exports and production were expected to decelerate temporarily due to supply-side constraints. Thereafter, however, with the impact of COVID-19 waning gradually, mainly due to the widespread vaccinations, the economy was likely to recover, supported by an increase in external demand, accommodative financial conditions, and the government's economic measures.

Public investment had been more or less flat, as investment related to disaster relief construction had been decreasing, whereas that related to erosion and flood control works, for example, had been on an uptrend. As for the outlook, public investment was expected to steadily increase, reflecting progress in construction related to building national resilience.

Exports and industrial production continued to increase as a trend on the back of the recovery in overseas economies, despite being weak recently due to the effects of supply-side constraints seen in some areas. Looking at real exports by goods, those of automobile-related goods had declined significantly due to the production decline that reflected supply-chain disruptions caused by the spread of COVID-19 in the ASEAN countries. On the other hand, those of capital goods and IT-related goods -- with the exception of some items, such as on-board batteries for motor vehicles -- continued on an uptrend, reflecting an expansion in global demand for digital-related goods. As for the outlook, for the time being, exports and industrial production were likely to decelerate temporarily due to the effects of supply-side constraints; thereafter, however, as these effects waned gradually, they were expected to increase firmly again on the back of firm expansion in global demand, particularly for digital-related goods.

Corporate profits continued to improve on the whole, although weakness had been seen in some industries, such as face-to-face services. Business sentiment also continued to improve on the whole, despite weakness in the automobile and face-to-face services industries. In the September 2021 *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the diffusion index (DI) for business conditions for all industries and enterprises had improved for five consecutive quarters after hitting a bottom in the June 2020 survey. With regard to the manufacturing industry, although the DI for the automobile industry had deteriorated due to the production decline that reflected parts procurement difficulties, those for a wide range of industries continued to improve. This was mainly on the back of the steady expansion in global demand for digital-related goods and a pick-up in business fixed investment at home and abroad. As for the nonmanufacturing industry, the DI for the accommodations as well as eating and drinking services industries remained at a subdued level and those for the industries of retail and services for individuals had deteriorated, both affected by COVID-19 and public health measures. However, the DIs for such industries as wholesaling, transport and postal activities, and services for businesses had improved, mainly reflecting a recovery in activity for the manufacturing industry; thus, the overall business conditions DI for the nonmanufacturing industry had been flat.

Business fixed investment had picked up, although weakness had been seen in some industries. As for the outlook, an uptrend in such investment was expected to become clear, supported by improvement in corporate profits and accommodative financial conditions. The business fixed investment plan in the September 2021 *Tankan* showed that business fixed investment -- including software and research and development (R&D) investments and excluding land purchasing expenses, for all industries and enterprises including financial institutions -- was likely to see a substantial year-on-year rate of increase of 9.3 percent for fiscal 2021, a level nearly equivalent to the figure presented in the June 2021 survey. This partly reflected the prospects for improvement in corporate profits, in addition to resumption in investments that had been restrained temporarily.

Private consumption had shown signs of a pick-up recently, although downward pressure remained strong, particularly on services consumption, mainly due to vigilance against COVID-19. The consumption activity index (CAI; real, travel balance adjusted), after having increased firmly for June and turning flat for July, had plunged for August, mainly due to the rapid spread of COVID-19 and consequent expansion in regions where the state of emergency had been declared. Consumption of durable goods had declined recently, reflecting a peaking-out of stay-at-home-related demand and supply-side constraints seen in some areas. That of nondurable goods had been more or less flat at a somewhat low level, pushed down by sluggishness in such items as clothes that reflected a decrease in opportunities to go out, although food and daily necessities had been firm, supported by the expansion in stay-at-home demand. Services consumption had seen a pick-up for the June-

July period; however, with the resurgence of COVID-19, it declined for August, particularly in dining-out and domestic travel.

Looking at recent developments in private consumption based on anecdotal information from firms and high-frequency indicators, some durable goods remained under downward pressure due to supply-side constraints, while signs of a pick-up had been observed in services consumption since October in particular, when the number of confirmed new cases of COVID-19 declined and the state of emergency and priority measures to prevent the spread of disease were lifted nationwide. Dining-out for October was said to have seen a recovery in the number of diners, including at nighttime, with the resumption of serving of alcohol. Furthermore, many were of the view that bookings for year-end domestic travel, mainly for short trips, had started to pick up since early October. For the time being, it was expected that services consumption would be restrained by vigilance against COVID-19 and durable goods consumption would be pushed down by supply-side constraints, such as on automobiles. However, private consumption was expected to pick up again, supported by the materialization of pent-up demand for services and durable goods, as the resumption of consumption activities progressed while public health was being protected, mainly due to the widespread vaccinations, and as supply-side constraints waned.

The employment and income situation remained weak due to the impact of COVID-19. As for the employment situation, the number of employed persons in the *Labour Force Survey* had bottomed out, reflecting a pick-up in overall economic activity; however, it remained at a relatively low level, mainly for non-regular employees in the face-to-face services industry. The year-on-year rate of change in total cash earnings had been positive due to the base effect of the significant decline seen in 2020 and an increase in scheduled cash earnings in some industries having acute labor shortage. As for the outlook, employee income was likely to continue improving moderately on the back of the pick-up in economic activity, and its level was expected to increase markedly.

As for prices, international commodity prices had risen against the background of a recovery in the global economy and supply-side constraints seen in some areas. In this situation, the rate of change in the producer price index (PPI) relative to three months earlier continued to increase, reflecting developments in international commodity prices and foreign exchange rates. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) had been at around 0 percent, mainly due to the rise in energy prices, despite being affected by COVID-19 and a reduction in mobile phone charges. Meanwhile, inflation expectations had picked up. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to increase moderately in positive territory for the time being, reflecting the rise in energy prices. Thereafter, albeit with fluctuations due to temporary factors, it was projected to increase gradually as a trend, mainly on the back of improvement in the output gap and a rise in medium- to long-term inflation expectations.

2. Financial environment

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

Firms' demand for funds was more or less unchanged on the whole, as a rise in precautionary demand due to the impact of COVID-19 had generally subsided, although demand for funds such as those related to mergers and acquisitions of firms had been seen in part. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuing 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 rates of increase in the amount outstanding of bank lending and the aggregate amount outstanding of CP and corporate bonds had decelerated compared with the relatively high growth last year; they had been at around 0.5 percent and around 4 percent, respectively. However, their amounts outstanding remained at high levels. The environment for external funding remained accommodative owing to the Bank's and the government's measures, as well as efforts made by financial institutions. The number of bankruptcies of firms had been at a low level. Firms' financial positions had improved on the whole, mainly on the back of a pick-up in Japan's economy; however, weakness remained, particularly for firms in industries facing subdued sales due to the impact of COVID-19, as well as small and medium-sized ones.

The year-on-year rate of change in the monetary base had been in the range of 10-15 percent, and that in the money stock had been in the range of 4.0-4.5 percent.

3. Financial system

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

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

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

II. Amendment to the Loan Rates under the Special Rules for the U.S. Dollar Lending Arrangement to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth

A. Staff Reports

The current loan rates under the Special Rules for the U.S. Dollar Lending Arrangement to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth are stipulated as 6-month U.S. dollar LIBOR. In light of the encouragement by the U.S. supervisory agencies, in preparation for the cessation of U.S. dollar LIBOR, to cease entering into new contracts that use it as a reference rate, it was appropriate for the Bank to make necessary revisions to the loan rates under the Special Rules for the U.S. dollar lending arrangement. Specifically, the loan rates to be applied to U.S. dollar funds offered from January 2022 onward could be 6-month U.S. dollar Secured Overnight Financing Rate term rates (SOFR Term Rates) -- leading risk-free rates -- plus 0.42826 percent per annum, as spread adjustment, partly based on the recommendation by the

Alternative Reference Rates Committee (ARRC), the committee convened to identify alternative reference rates for U.S. dollar LIBOR.

B. Discussion by the Policy Board and Vote

"Amendment to 'Special Rules for the U.S. Dollar Lending Arrangement to Enhance the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth Conducted through the Loan Support Program,'" which represented the aforementioned staff reports, was put to a vote. Members voted unanimously to approve the amendment. 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 and the October 2021 *Outlook for Economic Activity and Prices*

A. Current Situation of Economic Activity and Prices

Members shared the view that, with regard to global financial markets, stock prices, particularly those in the United States and Europe, had been at high levels, reflecting the recovery in the global economy; however, the markets had been nervous at times amid concern over the debt problems in the Chinese real estate sector and steps toward reducing monetary accommodation in the United States and Europe in response to rising inflation. On this point, one member commented that global financial markets remained nervous amid various risks, such as concern that the rise in inflation rates in the United States and Europe might be prolonged, developments in long-term interest rates reflecting that concern, and a deceleration in the Chinese economy. This member expressed the intent to closely monitor such factors as the conduct of monetary policy in the respective economies and its impact on the financial markets.

Members concurred that overseas economies had recovered on the whole, albeit with variation across countries and regions. On this basis, many members noted that the supply side had not fully kept up with the rapid growth in demand that was due to the resumption in economic activity seen mainly in advanced economies. They continued that, during this situation, supply-side constraints had been seen globally, including the semiconductor shortage, the stagnation of logistics such as in marine transport, and parts procurement difficulties reflecting supply-chain disruptions; these constraints had therefore been restraining the recovery in overseas economies.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had recovered. One member said that, although the spread of the Delta variant and supply-side constraints had been acting as a headwind, the economy continued to recover, underpinned by an expansion in demand owing to an easing of movement restrictions and by the government's economic measures. A different member noted that business sentiment continued to recover both in the manufacturing and nonmanufacturing industries; however, inflation pressure had been increasing due to supply-side constraints on labor, products, and logistics. One member expressed the view that a mismatch in labor -- in which an expansion in demand was outpacing supply -- was being seen in various industries, and this had led to rises in wages as well as in prices of goods and services. The member was of the view that such a mismatch -- despite being in place for longer than expected -- was basically a transitory phenomenon that reflected the resumption in economic activity, and would therefore be resolved gradually over the course of time.

Members shared the view that the European economy had recovered. One member said that the economy had improved, mainly in the face-to-face services sector -- such as eating and drinking as well as accommodations -- due to progress with vaccinations, for example. A different member noted that, according to the October 2021 *World Economic Outlook* released by the International Monetary Fund (IMF), among the advanced economies, the euro area was the only area for which a 2021 projection had been revised upward. Meanwhile, one member expressed the view that signs of a slowdown in economic activity were being observed to some extent, as suggested by the fact that the Purchasing Managers' Index (PMI) for the euro area had declined for three consecutive months. A different member expressed concern regarding signs of a resurgence of COVID-19 having been seen recently in some European countries.

Members concurred that the Chinese economy continued to recover as a trend, although the pace of improvement had decelerated. Some members expressed the view that the economy had been slowing down, due to the effects of the electricity crunch, in addition to adjustment pressure in the real estate sector. One of these members pointed out that attention should be paid to the effects of the debt problems in the real estate sector, as the weight of this sector in the overall economy was high in China when compared internationally. A different member expressed the view that adjustments to real estate prices would be a factor pushing down private consumption through wealth effects and could also affect firms' funding conditions through the functioning of financial intermediation. The member continued that, with the rapidly aging population, there was a considerable risk that the Chinese economy might slip into low growth that would take hold over time, as was the case with Japan's post-bubble period.

Members shared the recognition that emerging economies other than China had picked up on the whole, supported by firm external demand, while downward pressure exerted on some countries and regions due to the spread of COVID-19 in summer 2021 had been waning. One member noted that, in emerging economies, such as the ASEAN countries, supply-side issues -- including securing the labor force as well as procuring raw materials and parts -- had materialized, and the effects this would have on the Japanese and overseas economies through supply chains warranted close attention.

Members concurred that financial conditions in Japan had been accommodative on the whole, although weakness in firms' financial positions remained in some segments. A few members said that indicators related to corporate financing were maintaining their improving trends, despite the spread of the Delta variant during the summer. One of these members pointed out that the results of the September 2021 *Tankan* and other surveys showed that, with regard to firms' financial positions, while these remained weak in some small and medium-sized enterprises, such as in the face-to-face services sector, an improving trend had generally been seen for other sectors and large enterprises.

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 concurred that the economy had picked up as a trend, although it remained in a severe situation due to the impact of COVID-19 at home and abroad. A few members commented that the face-to-face services industry remained under strong downward pressure; however, the economy had picked up as a trend, supported by a virtuous cycle in the corporate sector.

Members agreed that exports and production continued to increase as a trend on the back of the recovery in overseas economies, despite being weak recently due to the effects of supply-side constraints seen in some areas. One member pointed out that corporate sentiment continued on an improving trend, partly because demand had been solid, although exports and production remained under downward pressure due to supply-chain disruptions. One member stated that the effects of supply-side constraints, mainly on semiconductors, not only had been exerted on the automobile industry, but also had started spreading to related industries and other products. At the same time, this member expressed the view that exports and production had shown firmness, supported by global demand for digital-related goods and for business fixed investment.

Members shared the recognition that business fixed investment had picked up, although weakness had been seen in some industries. One member expressed the view that digital-related demand from abroad remained firm, and that a virtuous cycle from corporate profits to business fixed investment, triggered by an increase in external demand, had been maintained. On this point, some members said that the September *Tankan* showed that firms had maintained their solid plans for corporate profits and business fixed investment despite the spread of the Delta variant during the summer, and this confirmed that the virtuous cycle in the corporate sector continued to operate. On this basis, one of these members noted that, however, it should be taken into account that the effects of supply-side constraints might not have been fully incorporated in the September survey results. A few members pointed out that, at the October 2021 meeting of general managers of the Bank's branches, there were many reports of anecdotal information obtained from firms suggesting a positive stance on business fixed investment in such areas as R&D, digitalization, and addressing environmental issues.

Members agreed that private consumption had shown signs of a pick-up recently, although downward pressure remained strong, particularly on services consumption, mainly due to vigilance against COVID-19. A few members noted that, based on high-frequency indicators and anecdotal information from firms, private consumption, such as eating and drinking, had recently shown positive developments, reflecting the rapid decrease in the number of confirmed cases and the easing of movement restrictions.

As for prices, members agreed that the year-on-year rate of change in the CPI had been at around 0 percent, mainly due to the rise in energy prices, despite being affected by COVID-19 and the reduction in mobile phone charges. A few members pointed out that, when excluding the effects of temporary factors such as the reduction in mobile phone charges and the rise in energy prices, the year-on-year rate of change in the CPI had been slightly positive. One of these members assessed that inflation expectations had picked up, as evident in the various indicators of the September *Tankan*. The member then expressed the view that the underlying inflationary pressure had been increasing in Japan, albeit gradually, given, for example, improvement in the output gap due to the resumption of economic activity. A different member commented that attention was warranted on the fact that, of the CPI items, prices of those that had appeared to be declining due to the effects of COVID-19 had recently turned to an increase.

B. Outlook for Economic Activity and Prices

In formulating the October 2021 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), members discussed the baseline scenario of the outlook for Japan's economic activity. They concurred that, for the time being, downward pressure stemming from COVID-19 was likely to remain on services consumption, and exports and production were expected to decelerate temporarily due to supply-side constraints. Members shared the recognition that, thereafter, with the impact of COVID-19 waning gradually, mainly due to the widespread vaccinations, the economy was likely to recover, supported by the increase in external demand, accommodative financial conditions, and the government's economic measures. Furthermore, they agreed that, from the middle of the projection period, as the virtuous cycle from income to spending intensified in the overall economy, including the household sector, Japan's economy was projected to continue growing at a pace, albeit slower, above its potential growth rate. One member pointed out that, as vaccinations progressed and the impact of COVID-19 subsided in Japan, economic activity could be expected to normalize further, including in the face-to-face services sector. A different member expressed the view that economic improvement was expected to become pronounced in the first half of 2022, when vigilance against COVID-19 and the effects of supply-side constraints were projected to wane. Some members were of the view that the timing of an economic recovery was likely to be somewhat delayed compared to the forecast in the July 2021 Outlook Report, affected by the recent supply-side constraints and the spread of the Delta variant during the summer. Meanwhile, one member expressed the recognition that, with a view to achieving sustainable economic growth from a somewhat long-term perspective, it was important to also achieve increases in productivity and wages at small and medium-sized firms, where 70 percent of employees in Japan work, in addition to accelerating digitalization and responses to climate change in the corporate sector.

Members concurred that, as the impact of COVID-19 waned gradually, overseas economies were likely to continue growing, albeit with variation across countries and regions, supported by aggressive macroeconomic policies taken mainly in advanced economies. On this basis, many members expressed the view that this outlook entailed high uncertainties. With regard to the effects of supply-side constraints, one member said that it was necessary to closely monitor whether the prolonged electricity crunch in China would have larger effects on its economy and the global supply chain. A different member commented that attention was warranted on the Chinese economy, where clearer signs of a slowdown had been observed recently, with regard to whether its growth rate would suddenly decelerate.

Members agreed that, although Japan's exports, mainly automobile-related ones, were expected to decelerate temporarily due to the effects of supply-side constraints, they were projected to continue increasing as a trend on the back of firm expansion in global demand, particularly for digital-related goods. On the other hand, members shared the view that inbound tourism consumption, which is categorized under services exports, was expected to remain subdued while entry and travel restrictions continued but likely to recover thereafter.

Members concurred that an uptrend in business fixed investment was expected to become clear, mainly for machinery and digital-related investments -- supported by improvement in corporate profits, accommodative financial conditions, and the government's economic measures -- although investment by the face-to-face services sector was projected to remain weak for the time being. One member pointed out that it was highly likely that new demand for business fixed investment would materialize due to (1) a decline in real interest rates reflecting an improvement in firms' inflation expectations, (2) an increase in the expected growth rate, (3) digital transformation, and (4) responses to climate-related risks. On the other hand, one member expressed the view that attention should be paid to the possibility that, if there was a deterioration in the outlook for the Chinese economy, in addition to the prolonged supply-side constraints, such developments could lead to, for example, the postponement of business fixed investment. This member also noted that a continued increase in software investment was necessary in order to make up for the delay in digitalization.

Members agreed that private consumption, despite being restrained for the time being, mainly by vigilance against COVID-19, was expected to pick up again, supported by the materialization of pent-up demand, such as for services, as the resumption of consumption activities progressed while public health was being protected, mainly due to the widespread vaccinations. They shared the view that, thereafter, as the impact of COVID-19 subsided gradually, an uptrend in private consumption was projected to become evident, supported by improvement in employee income. One member said that services consumption would likely pick up, given that new measures for resuming economic activity while protecting public health -- including the use of vaccination certificates -- had begun to be implemented. The member also noted that pent-up demand for services such as travel, eating and drinking, and entertainment was anticipated to increase, and that the savings of households -- which had accumulated to date -- were expected to push up this demand even further. On the other hand, the member pointed out that private consumption in Japan had been relatively weak from a somewhat long-term perspective. The member then expressed the view that this was largely attributable to the concern people had regarding their futures. A different member said that, in view of the fact that administered prices and prices of food products, for example, had been raised since October 2021 with the rise in costs such as of crude oil, it was necessary to pay attention to the possibility that such price rises would affect the timing of the materialization of pent-up demand and its strength.

Members shared the view that employee income was likely to increase moderately on the back of a rise in the number of employees that reflected the recovery in domestic and external demand and of wage increases in industries having acute labor shortage. One member noted that, in order to boost households' appetite for spending, it was important that there was a sense of assurance regarding the social security system, and also that the virtuous cycle from income to spending would intensify; for example, a rise in corporate profits would lead to wage increases. One member pointed out that, with a view to encouraging households and firms to allocate their accumulated savings and standby funds to spending, increases in income and wages were desirable. Moreover, this member expressed the view that the gap in inflation rates between the United States and Japan was mainly due to disparities in services prices, and that it was determined in particular by developments in wages. The member then commented that labor market conditions needed to tighten further in order for wages to be raised. A different member expressed the view that, by promoting the use of the Nippon Individual Savings Account (NISA) and small and medium-sized firms' use of the defined contribution pension plan, for example, it was important that a wide range of households made effective use of their financial assets to increase their income.

Based on this discussion, members concurred that, comparing the projections with those in the July 2021 Outlook Report, the projected growth rate for fiscal 2021 was somewhat lower, mainly for exports and private consumption, but that for fiscal 2022 was somewhat higher.

Members then discussed the baseline scenario of the outlook for Japan's price developments. They agreed that the year-on-year rate of change in the CPI was likely to increase moderately in positive territory for the time being, reflecting the rise in energy prices. Members shared the view that, thereafter, albeit with fluctuations due to temporary factors, the rate of change was projected to increase gradually as a trend, mainly on the back of improvement in the output gap and the rise in medium- to long-term inflation expectations.

As background to this outlook for prices, members shared the view that, although the output gap -- which captures the utilization of labor and capital -- had been negative recently, it was projected to turn positive with the economy returning to a growth path that outpaced its potential growth rate and continue to expand moderately from the middle of the projection period. In addition, they concurred that, as households' tolerance of price rises improved moderately, mainly reflecting an increase in wage inflation, and as firms' price-setting stance gradually became active, the pass-through of cost increases and a rise in selling prices were likely to become widely observed. On this basis, members shared the view that the increase in actual inflation was expected to lead to a rise in households' and firms' medium- to long-term inflation expectations through the adaptive formation mechanism and thereby encourage further price rises. One member pointed out that the rise in energy prices could persist, putting upward pressure on prices, in a situation where oil and coal continued to be replaced mainly by renewable energy, with awareness of climate change issues heightening globally. One member expressed the view that, on the back of improvement in the output gap due to the further normalization of the economy, there was a possibility that a pass-through to consumer prices of the significant rise in producer prices seen so far would intensify. On the other hand, the member added that the probability of a surge in wages and prices reflecting a labor shortage, as observed in the United States, was not that high, given that firms in Japan had retained their employees to a certain extent even during the pandemic. A different member pointed out that the CPI had been pushed up by the pass-through of price rises in imported raw materials, but inflationary pressure stemming from wage increases and supply-side constraints had been weak in Japan. One member said that, although the year-on-year rate of change in the CPI had turned positive, achieving the price stability target in the foreseeable future would be difficult given developments in the output gap and inflation expectations.

Based on this discussion, members agreed that, compared with the previous projections in the July Outlook Report, the projected rate of increase in the CPI for fiscal 2021 was lower, mainly due to the effects of the rebasing of the index.

Meanwhile, members also exchanged views regarding the financial conditions on which the above outlook for economic activity and prices was based. They shared the recognition that, on the back of financial system stability being maintained, they considered that financial conditions would remain accommodative owing to the continuation of powerful monetary easing by the Bank, the government's measures, and efforts made by private financial institutions, and that this would support an increase in private demand. One member noted that, since the impact of COVID-19 on firms' debt servicing capacity entailed high uncertainties, it was necessary to keep in mind the risk that a considerable number of firms in industries affected significantly by the pandemic might face difficulty in continuing their businesses even under accommodative financial conditions.

Members then discussed upside and downside risks to economic activity and prices.

First, with regard to risks to economic activity, members concurred that there were high uncertainties over the course of COVID-19 and its impact on the economy, or more specifically regarding people's vigilance against COVID-19 and its impact on consumption activities. Particularly, they shared the recognition that, if people's vigilance became entrenched due, for example, to the spread of highly contagious variants, there was a risk that economic activity would deviate downward from the baseline scenario. On the other hand, members shared the view that economic activity could improve by more than expected because if, for example, public health was protected and people's vigilance lessened significantly with the widespread vaccinations and the rollout of antiviral medicines, pent-up demand for services consumption would materialize relatively early. Regarding the downside risk, one member noted that, although the foundation for a recovery of consumption had started to be in place, as seen, for example, in vaccination rates having reached 70 percent, the sustainability of this recovery of consumption warranted attention because vigilance against a sixth wave of COVID-19 remained entrenched in the current situation where it was still somewhat unclear why the fifth wave had subsided. As for the upside risk, on the other hand, one member pointed out that, considering the recent link between the number of people going out and the effective reproduction number for COVID-19, there was a possibility that the spread of COVID-19 would be contained even with an expected increase in the number of people going out through winter, and the pace of economic recovery would therefore be faster than expected.

Members also concurred that attention should be paid to the effects of supply-side constraints. Specifically, they agreed that, as the impact of COVID-19 waned, demand imbalances and production and shipping bottlenecks were likely to head toward a resolution; however, if the effects of supply-side constraints were prolonged or amplified by more than expected, there was a risk that economic activity would deviate further downward from the baseline scenario, particularly in the first half of the projection period. In this regard, one member expressed the view that downward pressure on exports and production would be eased sooner or later, given that the COVID-19 situation in Southeast Asia, which had been the direct cause of the recent supply-chain disruptions, had started to calm down and that production activity had been resuming. However, the member expressed the recognition that a fundamental problem remained of supply capacity not being able to keep up with the surge in demand, mainly for semiconductors. To solve this problem, the member added that it was necessary to enhance supply capacity through business fixed investment, and that this might therefore take a certain amount of time.

Furthermore, members raised the issue of developments in overseas economies as a risk to economic activity. Specifically, they pointed to developments such as the following: (1) the course of COVID-19 and its impact, (2) the pace of the vaccine rollout and the effects of the widespread vaccinations, (3) the effects of supply-side constraints and of the rise in commodity prices, (4) steps toward reducing monetary accommodation in advanced economies and their impact on global financial markets, and (5) the consequences of firms' debt problems in certain industries within some emerging economies. As risks considered from a somewhat long-term perspective, members also shared the view that there were uncertainties over whether firms' and households' medium- to long-term growth expectations would be raised or lowered.

Regarding risks to prices, members agreed that, if the aforementioned risks to economic activity materialized, prices were also likely to be affected accordingly. Members also discussed risks specific to prices. They concurred that firms' price-setting behavior entailed uncertainties; in particular, with continuing improvement in the output gap, close monitoring was required on whether their price-setting stance would gradually become active as expected. In relation to this, one member said that the degree to which firms burdened with debt due to the impact of COVID-19 would raise selling prices to enhance profitability warranted attention. In addition, members shared the view that close attention should be paid to 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 as risks that might lead prices to deviate either upward or downward from the baseline scenario. Regarding this point, one member expressed the view that the current rise in international commodity prices was principally observed on the back of growth in global demand. The member continued that, in Japan as a whole thus far, the positive effects of growing global demand, such as the increase in exports and expansion of profits from business conducted overseas, outweighed the negative effects brought about by the rise in raw material costs.

Based on these discussions, members shared the recognition that, with regard to the risk balance, risks to economic activity were skewed to the downside for the time being, mainly due to the impact of COVID-19, but were generally balanced for the middle of the projection period onward. They shared the recognition that risks to prices were skewed to the downside for the projection period as a whole, although upside risks remained for the time being, mainly reflecting the effects of the rise in international commodity prices.

As risks considered most relevant to the conduct of monetary policy, members also discussed developments in Japan's financial system. They agreed that it was maintaining stability on the whole. That said, members shared the view that, from a longer-term perspective, if the downward pressure on financial institutions' profits became prolonged, there would be risks of both a gradual pullback in financial intermediation activities and of increased vulnerability of the financial system, mainly due to an overheating in the search for yield behavior. However, they also shared the view that these risks were not significant at this point. One member pointed out that many of the loans disbursed by private financial institutions to meet the demand for funds among small and medium-sized firms that had been affected by COVID-19 were effectively interest-free and unsecured loans, with the credit risk being transferred to the public sector, and therefore this prevented an increase in credit costs in a sense. A different member said that it was necessary to closely monitor the progress with regional financial institutions' efforts toward cultivating new borrowing needs among small and medium-sized firms and contributing to sustainable revitalization of the regional economy.

IV. Summary of Discussions on Monetary Policy

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

Regarding the Bank's basic stance on conducting monetary policy for the time being, members agreed that the three monetary easing measures -- namely, (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits, and (3) purchases of ETFs and J-REITs -- had been exerting their intended effects. They also agreed that it was important for the Bank to continue to support financing, mainly of firms, and maintain stability in financial markets through the three monetary easing measures. On this basis, they concurred that, for the time being, the Bank would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary. As for the assessment of financial conditions that had been under the support of the Special Program, one member said that precautionary demand for funds that rose substantially in 2020 had subsided, and repayment of loans by large firms continued to take place. The member then expressed the view that the impact of COVID-19 on financial positions was becoming limited to those of firms in industries facing subdued sales as well as small and medium-sized ones. Some members, including this member, commented that the Bank would continue to examine the relevant data, such as the December 2021 *Tankan*, to see whether improvement in corporate financing would become widely observed, along with a pick-up in the face-to-face services sector owing to the lifting of the state of emergency. A different member expressed the view that it was appropriate to continue with the Special Program in some way, in the case where the contagion risk of COVID-19 remained; however, even if the program were to be terminated, the termination should be carried out with caution so as not to give rise to a negative shock from the perspective of ensuring a recovery in the macroeconomy. On this basis, the member added that, in a situation where there were significant uncertainties over the impact of COVID-19, it was necessary for the Bank to respond in a flexible manner. One member pointed out that, in considering a continuation of policy support, attention should be paid to the demerit that it could restrain firms with low profitability from exiting the market, thereby preserving a low-wage, low-price economic structure. Meanwhile, one member expressed the view that, with financial positions of large firms continuing to improve, the Bank should give further consideration to how its purchases of corporate bonds under the Special Program would affect the market functioning, including the price determination mechanism, as well as the fund management of pension funds and life insurers.

Members discussed the effects of the rise in international commodity prices from the viewpoint of conducting monetary policy. Some members pointed to the following, bearing in mind developments in the United States and Europe: in the case where the direct cause of the rise in inflation rates was the rise in international commodity prices induced by supply factors, it was not necessary to address the rise in inflation through monetary policy; on the other hand, in the case where the rise in inflation brought about secondary spillover effects, for example, on inflation expectations and wage negotiations, a situation might arise where monetary policy responses were warranted. On this basis, one of these members said that the Bank should take into account the following points when conducting monetary policy: (1) it was difficult to identify demand shocks and supply shocks on a real-time basis, and (2) monetary policy effects were transmitted with a time lag. In this situation, a few members pointed out that, in the case of Japan, in order to address deterioration in the terms of trade, it was important to improve the output gap through continuing with monetary easing, and thereby create an environment where the pass-through of price rises would be promoted.

Members then discussed the impact of the yen's depreciation. Some members expressed the view that the depreciation had positively affected Japan's economy as a whole through an increase in profits from business conducted overseas and a rise in stock prices, although its effect of pushing up exports had declined. One member expressed the recognition that, from the viewpoint of conducting monetary policy, it was important to consider the impact of the yen's depreciation on the macroeconomy. This member pointed out that, at the same time, it was necessary to keep in mind that the effect of the depreciation on each economic entity was uneven, depending on industry and size. A different member said that, while prices had increased recently, triggered mainly by the yen's depreciation, it was unlikely at present that heightened inflationary pressure would reduce the economic welfare of Japan as a whole; therefore, the Bank should continue with the powerful monetary easing. While noting that the recent yen depreciation reflected differences in inflation rates and monetary policy stances among economies, one member expressed the view that, when discussing the impact of the depreciation, various transmission channels should be taken into account comprehensively, including those through the real economy and financial markets. A few members commented that, although foreign exchange rates and asset prices were important transmission channels of monetary policy, it should be noted that the Bank did not set them as policy targets.

Based on the above discussions, members expressed their opinions on the Bank's basic stance on its future conduct of monetary policy. Some members expressed the view that, in Japan, where the inflation rate was below the price stability target, it was important to persistently continue with extremely accommodative monetary policy. One member said that monetary policy would be normalized in Japan when the 2 percent price stability target was achieved in a stable manner irrespective of policy developments in other economies; given that the target had not been achieved, there was absolutely no reason to adjust monetary easing. This member then expressed the recognition that the Bank should clearly explain this point to the public. One member commented that, in order to boost households' appetite for spending and make them more tolerant of price rises, it was necessary to dispel their concern regarding the future, mainly by raising their expectations for wage increases. This member continued that the Bank should persistently continue with the current monetary easing and thereby support the economy, so that a rise in corporate profits led to wage increases and the virtuous cycle from income to spending intensified. In response, a different member pointed out that, in a situation where it was expected to be difficult to achieve the price stability target in the foreseeable future, the Bank should strengthen its monetary easing stance with a view to improving the output gap and inflation expectations.

With respect to yield curve control, members shared the recognition that the JGB yield curve had been formed smoothly in a manner consistent with the guideline for market operations.

Based on the above discussions, regarding the guideline for market operations for the intermeeting period, most members expressed the view that it was appropriate for the Bank to maintain the following guideline. First, as for the short-term policy interest rate, it would apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank. Second, as for the long-term interest rate, the Bank would purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields would remain at around 0 percent.

On this point, one member expressed the opinion that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to encouraging firms to make active business fixed investment for the post-COVID-19 era.

With regard to asset purchases other than JGB purchases, members shared the recognition that it was appropriate for the Bank to implement the following guideline. First, it would purchase ETFs and J-REITs as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding. Second, the Bank would purchase CP and corporate bonds with an upper limit on the amount outstanding of about 20 trillion yen in total until the end of March 2022.

With respect to the Bank's stance on its future conduct of monetary policy, members shared the view that it would (1) continue with Quantitative and Qualitative Monetary Easing with Yield Curve Control, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining that target in a stable manner, and (2) continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeded 2 percent and stayed above the target in a stable manner.

With regard to the measures that the Bank had introduced and strengthened since March 2020 in response to the impact of COVID-19, members shared the view that it would continue to support financing, mainly of firms, and maintain stability in financial markets through (1) the Special Program, (2) an ample provision of yen and foreign currency funds without setting upper limits, and (3) purchases of ETFs and J-REITs.

Regarding its policy stance for the time being, members agreed that the Bank would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary. Based on this, most members shared the view that, as for policy rates, it would expect short- and long-term interest rates to remain at their present or lower levels.

On this point, one member was of the opinion that further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

V. Remarks by Government Representatives

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

(1) Under the new Cabinet, the government would work toward achieving the prime target of extricating Japan from deflation. Based on the prime minister's instructions, with a view to taking all possible measures to respond to COVID-19 and to triggering a new capitalism based on a virtuous cycle of growth and distribution, it would develop a comprehensive and bold economic stimulus package and compile a high-quality budget.

(2) At the Group of Twenty (G20) meeting, member countries reaffirmed their resolve to use all available tools for as long as required as the global economy had been exposed to downside risks, in particular the spread of COVID-19 variants. It was also stated that central banks would act as needed to meet their mandates, including price stability.

(3) The government expected the Bank to conduct necessary measures appropriately, including responses to COVID-19, while cooperating with the government.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy continued to pick up, although the pace had weakened as it remained in a severe situation due to the impact of COVID-19. Regarding the outlook, it was expected to show movement toward picking up, but careful attention needed to be paid to downside risks stemming from the effects of supply-chain disruptions.

(2) The government had been swiftly making efforts to compile concrete measures in response to COVID-19, so that it had the overall picture of the responses in early November. The basic idea behind the measures was to reinforce the flow from prevention through detection and early treatment and to prepare for another possible spread of the infection, assuming a worst-case scenario.

(3) The government would continue to strive to extricate Japan from deflation. In addition, it planned to develop the new economic stimulus package with a view to taking all possible measures to respond to COVID-19 and to triggering the new capitalism based on the virtuous cycle of growth and distribution. The government would work on designing the package for compilation promptly after the general election.

(4) The government expected the Bank to continue to conduct appropriate monetary policy while carefully monitoring, for example, the impact of COVID-19 on the economy.

VI. Votes

A. Vote on the Guideline for Market Operations

Based on the above discussions, to reflect the majority view of the members, the chairman formulated the following proposal on the guideline for market operations and put it to a vote.

The Policy Board decided the proposal by a majority vote.

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

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.

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

Votes against the proposal: Mr. KATAOKA Goushi.

Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to encouraging firms to make active business fixed investment for the post-COVID-19 era.

B. Vote on the Guideline for Asset Purchases

To reflect the view of the members, the chairman formulated the following proposal on the guideline for asset purchases and put it to a vote.

The Policy Board decided the proposal by a unanimous vote.

The Chairman's Policy Proposal on the Guideline for Asset Purchases:

The guideline for asset purchases other than JGB purchases will be as follows.

1. The Bank will purchase ETFs and J-REITs as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

2. The Bank will purchase CP and corporate bonds with an upper limit on the amount outstanding of about 20 trillion yen in total until the end of March 2022.

Votes for the proposal: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SUZUKI Hitoshi, Mr. KATAOKA Goushi, Mr. ADACHI Seiji, Mr. NAKAMURA Toyoaki, Mr. NOGUCHI Asahi, and Ms. NAKAGAWA Junko.

Votes against the proposal: None.

C. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. Mr. Kataoka expressed the opinion that further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.

Based on this discussion, the chairman formulated the Statement on Monetary Policy and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment).

VII. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the October 2021 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 October 29.

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, 2021, for release on November 2.

Attachment
October 28, 2021
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

   The Bank decided, by an 8-1 majority vote, to set the following guideline for market operations for the intermeeting period. [Note 1]

   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.

   (2) Guidelines for asset purchases

   With regard to asset purchases other than JGB purchases, the Bank decided, by a unanimous vote, to set the following guidelines.

   a) The Bank will purchase exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) as necessary with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

   b) The Bank will purchase CP and corporate bonds with an upper limit on the amount outstanding of about 20 trillion yen in total until the end of March 2022.

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

The Bank will continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations, and (3) purchases of ETFs and J-REITs with upper limits of about 12 trillion yen and about 180 billion yen, respectively, on annual paces of increase in their amounts outstanding.

For the time being, the Bank will closely monitor the impact of the novel coronavirus (COVID-19) and will not hesitate to take additional easing measures if necessary, and also it expects short- and long-term policy interest rates to remain at their present or lower levels. [Note 2]

[Note 1] Voting for the action: Mr. KURODA Haruhiko, Mr. AMAMIYA Masayoshi, Mr. WAKATABE Masazumi, Mr. SUZUKI Hitoshi, Mr. ADACHI Seiji, Mr. NAKAMURA Toyoaki, Mr. NOGUCHI Asahi, and Ms. NAKAGAWA Junko. Voting against the action: Mr. KATAOKA Goushi. Mr. Kataoka dissented, considering that it was desirable to further strengthen monetary easing by lowering short- and long-term interest rates, with a view to encouraging firms to make active business fixed investment for the post-COVID-19 era.

[Note 2] Mr. Kataoka dissented, considering that further coordination of fiscal and monetary policy was necessary and it was appropriate for the Bank to revise the forward guidance for the policy rates to relate it to the price stability target.