Not to be released until 8:50 a.m. Japan Standard Time on Thursday, March 24, 2022.

March 24, 2022

Bank of Japan

Minutes of the Monetary Policy Meeting

on January 17 and 18, 2022

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Monday, January 17, 2022, from 2:00 p.m. to 3:55 p.m., and on Tuesday, January 18, from 9:00 a.m. to 11:39 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. KIKAWADA Hitoshi, State Minister of Cabinet Office, Cabinet Office[2]
Mr. INOUE Hiroyuki, Vice-Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

Mr. UCHIDA Shinichi, Executive Director
Mr. YAMADA Yasuhiro, Executive Director
Ms. SHIMIZU Tokiko, Executive Director (Assistant Governor)
Mr. KAIZUKA Masaaki, Executive Director

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on March 17 and 18, 2022, as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Messrs. Oie and Kikawada were present on January 18.

[3] Messrs. Ono and Inoue were present on January 17.

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

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. OBA Hidetada, Deputy Director, 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 January 17 from 2:51 p.m. to 3:55 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 December 16 and 17, 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) (the Special Operations to Facilitate Financing), both under the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19) (the Special Program); 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.

With a view to supporting financing of the private sector for their efforts on climate change, the Bank had made its first auction and loan disbursement amounting to 2.0 trillion yen under the Funds-Supplying Operations to Support Financing for Climate Change Responses (Climate Response Financing Operations).

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 0.03 percent; general collateral (GC) repo rates had been in the range of around minus 0.06 to minus 0.09

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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.

percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been more or less flat.

The Tokyo Stock Price Index (TOPIX) was more or less unchanged throughout the intermeeting period; despite having risen through the beginning of 2022 on the back of less vigilance against the Omicron variant, it then declined in reflection of sluggish stock prices in the United States and Europe induced by increases in their long-term interest rates. Such rates in Japan had been at around 0 percent under yield curve control but had risen somewhat in tandem with those in the United States. In the foreign exchange market, the yen had depreciated against the U.S. dollar, due in part to the rise in U.S. long-term interest rates, but some unwinding of positions had been observed recently. It had also depreciated against the euro, partly reflecting the rise in European long-term interest rates.

C. Overseas Economic and Financial Developments

Overseas economies had recovered on the whole, albeit with variation across countries and regions. Due to the spread of the Omicron variant, the number of confirmed new cases of COVID-19 had surged, exceeding the record high level; however, in many countries and regions, the resumption of economic activity continued to progress while the target of public health measures was being narrowed down. Under these circumstances, business sentiment globally had improved, and the production level of the manufacturing industry and the trade volume had increased. As for the outlook, with the impact of COVID-19 waning gradually, overseas economies were likely to continue recovering on the whole, 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 continued to increase, mainly for goods consumption, partly owing to the government's economic measures. The number of employees had grown, 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 continued to increase. Regarding price developments, the personal consumption expenditure (PCE) deflator had marked a high increase on a year-on-year basis, mainly due to the effects of supply-side constraints.

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, although business sentiment kept improving, business fixed investment had been somewhat weak. As for prices, the year-on-year rate of change in the Harmonized Index of Consumer Prices (HICP) had been significantly above 2 percent, mainly due to the recent rise in energy prices.

The Chinese economy had recovered as a trend, but the pace of improvement remained slow. Private consumption had been on an uptrend, 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 effects of a semiconductor shortage. Fixed asset investment had been more or less flat, mainly because real estate investment had decelerated in reflection of, for example, firms' debt problems. Under these circumstances, production remained in a deceleration phase, partly reflecting power supply issues and the effects of supply-side constraints.

Emerging economies other than China had picked up as domestic and external demand had improved. The NIEs had recovered because exports continued to increase and domestic demand had picked up with the impact of COVID-19 waning. The ASEAN countries had seen a pick-up in economic activity, supported by an increase in domestic and external demand, despite the impact of COVID-19 remaining in some areas.

With respect to overseas financial markets, long-term interest rates in advanced economies had increased clearly, owing to emerging speculation that the Federal Reserve would reduce monetary accommodation earlier than expected. Despite being under downward pressure from the rise in long-term interest rates, stock prices in such economies had risen slightly on the whole since the previous meeting as concerns over an economic downturn that might be triggered by the Omicron variant had eased. In the foreign exchange market, currencies in emerging economies had appreciated slightly, mainly due to improvement in market participants' risk sentiment. Meanwhile, crude oil prices had increased amid easing concerns that demand would wane given the spread of COVID-19.

D. Economic and Financial Developments in Japan

1. Economic developments

A pick-up in Japan's economy had become evident as the impact of COVID-19 at home and abroad had waned gradually. Regarding the outlook, the economy was likely to recover as downward pressure stemming from COVID-19 on services consumption and the effects of supply-side constraints waned, while being supported by an increase in external demand, accommodative financial conditions, and the government's economic measures.

Exports and industrial production continued to increase as a trend on the back of the recovery in overseas economies, despite the remaining effects of supply-side constraints. Looking at production by industry, that of transport equipment had increased, after having decreased significantly due to the effects of parts procurement difficulties stemming from the spread of COVID-19 in the ASEAN countries; that said, the effects of supply-side constraints were still in evidence. Production of "general-purpose, production, and business-oriented machinery" remained on an uptrend, on the back of solid demand for business fixed investment at home and abroad. Although production of "electronic parts and devices" had been relatively weak in terms of such items for smartphones, it had been at a high level on the whole, as that of semiconductors for data centers, for example, had been steady. With regard to the outlook, exports and industrial production were likely to increase as the effects of supply-side constraints waned.

Corporate profits and business sentiment continued to improve on the whole. Business fixed investment had picked up, despite weakness being seen in some industries. Although the effects of parts shortages remained in the supply of some capital goods, such as mobile phone base stations, the aggregate supply of capital goods -- a coincident indicator of machinery investment -- had turned to an increase, mainly reflecting the waning of supply-side constraints on automobile-related goods. Private construction completed (nonresidential) -- a coincident indicator of construction investment -- had remained on a moderate declining trend but had bottomed out, mainly reflecting an increase in construction of logistics facilities on the back of an expansion in e-commerce. With regard to the outlook, as the effects of supply-side constraints waned, an uptrend in business fixed investment was expected to become clear, supported by improvement in corporate profits and accommodative financial conditions. When fluctuations were smoothed out, machinery orders -- a leading indicator of machinery investment -- had shown a pick-up. Estimated costs of construction starts -- a leading indicator of construction investment -- had picked up on the whole. This was because, although the construction of stores and accommodation facilities -- mainly by the eating and drinking as well as accommodations industries -- remained weak, construction starts had been supported by an uptrend in construction of logistics and other facilities, as well as by progress in urban redevelopment projects.

A pick-up in private consumption had become evident, with downward pressure stemming from COVID-19, particularly on services consumption, waning. Since the nationwide lifting of the state of emergency and priority measures to prevent the spread of disease, the consumption activity index (CAI; real, travel balance adjusted) had continued to climb clearly for October and November 2021, and had almost reached the level of that for November 2020, which was the peak since the outbreak of COVID-19. Consumption of durable goods had declined through summer 2021 due to a peaking-out of stay-at-home-related demand and supply-side constraints seen in such areas as automobiles, but had picked up thereafter. That of nondurable goods had increased, with firm consumption of food, beverages, and daily necessities as well as an increase in that of items such as clothes, mainly on the back of a pick-up in people's willingness to go out. Services consumption -- particularly in dining-out and domestic travel -- increased clearly for October and November 2021.

Based on anecdotal information from firms and high-frequency indicators, developments in private consumption from December 2021 through the beginning of 2022 were as follows. For durable goods, sales of automobiles had continued to increase, reflecting the waning of supply-side constraints. Despite concern over uncertainties regarding the Omicron variant, services consumption -- particularly in dining-out in small groups and domestic travel -- seemed to have continued on a pick-up trend, with the situation of COVID-19 having been subdued on the whole until the start of 2022. That said, it had been pointed out that uncertainties in the short run had heightened, particularly for face-to-face services consumption, as the number of confirmed new cases of COVID-19 had increased and priority measures to prevent the spread of disease had been placed for some areas after the start of January. In the outlook, private consumption was projected to be restrained for the time being, mainly through vigilance against COVID-19. However, it was expected to recover, supported by the materialization of pent-up demand and the government's economic measures, as the resumption of consumption activities progressed while public health was being protected, mainly due to the widespread vaccinations.

The employment and income situation remained relatively weak on the whole, although improvement had been seen in some parts. The number of employed persons in the *Labour Force Survey* had bottomed out, reflecting the 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. That said, the number of regular employees continued to increase moderately, mainly in the medical, healthcare, and welfare services industry, as well as the information and communications industry, both of which had faced a severe labor shortage. With regard to labor market conditions, although the active job openings-to-applicants ratio remained more or less flat at a level slightly above 1, its leading indicator -- namely, the new job openings-to-applicants ratio -- had risen recently on the back of an increase in job openings for the accommodations as well as eating and drinking industries. Total cash earnings per employee had increased moderately but were still below the pre-pandemic level. As for the outlook, employee income was likely to continue increasing moderately on the back of economic improvement and see a clear rise in its level.

As for prices, despite uncertainties surrounding the spread of the Omicron variant, international commodity prices remained at a high level against the background of a continued recovery in the global economy. The rate of change in the producer price index (PPI) relative to three months earlier continued to increase clearly, reflecting developments in international commodity prices and foreign exchange rates. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food), despite being affected by a reduction in mobile phone charges, had been slightly positive, reflecting price rises of energy and other items. That in the CPI (all items less fresh food and energy) had been positive at around 0.5 percent when excluding temporary factors such as the effects of the reduction in mobile phone charges. Meanwhile, inflation expectations had risen moderately. Many of the recently released indicators of such expectations of households, firms, economists, and market participants had been rising above levels seen immediately prior to the pandemic -- particularly for short-term expectations -- mainly reflecting developments in international commodity prices. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to increase in positive territory for the time being. That is, albeit with fluctuations, the increase in the CPI was expected to be brought about by the rise in energy prices, the moderate pass-through of raw material cost increases, and dissipation of the effects of the reduction in mobile phone charges.

2. Financial environment

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

Firms' demand for funds was more or less unchanged on the whole, as precautionary demand for liquidity due to the impact of COVID-19 had generally subsided, although demand for working capital by some firms had been seen -- particularly in the CP market -- reflecting raw material cost increases. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuance conditions for CP 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 been at around 0.5 percent and about 9 percent, respectively; 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 continued to improve on the whole on the back of the pick-up in Japan's economy, although weakness remained, particularly for firms in industries that were susceptible to the impact of COVID-19, as well as for small and medium-sized ones.

The year-on-year rate of change in the monetary base, while declining compared with a while ago, remained positive and was in the range of 8.0-8.5 percent recently. That in the money stock had been positive, in the range of 3.5-4.0 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 and *shinkin* banks had also been firm, mainly owing to the amount outstanding of loans related to COVID-19 being at a high level. Their credit costs had been at low levels. Their capital adequacy ratios were more or less unchanged.

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

II. Treatment of the Fund-Provisioning Measure to Stimulate Bank Lending

A. Staff Reports

The amount outstanding of loans under the Fund-Provisioning Measure to Stimulate Bank Lending had been at a high level, although its growth had paused; the measure thus continued to contribute to the formation of extremely accommodative financial conditions. With a view to continuing to encourage financial institutions' efforts to stimulate bank lending, the Bank could amend the Principal Terms and Conditions for the Loan Support Program and other related rules and extend by one year the deadline for loan disbursements under the measure.

B. Discussion by the Policy Board and 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 January 2022 *Outlook for Economic Activity and Prices*

A. Current Situation of Economic Activity and Prices

Members shared the view that global financial markets had seen large fluctuations, mainly due to uncertainties regarding the consequences of the Omicron variant and their impact on the global economy and to vigilance against moves to reduce monetary accommodation in, for example, the United States.

Members concurred that overseas economies had recovered on the whole, albeit with variation across countries and regions. Some members expressed the view that, despite being affected by the spread of the Omicron variant and supply-side constraints, overseas economies maintained a recovery trend as it had become normal to pursue economic activity while living with COVID-19, particularly in Europe and the United States. One member noted that there was a risk that the Omicron variant, due to its highly contagious nature, would cause a wide range of economic activities to become stagnant and exert downward pressure on the real economy; however, global economic activity as a whole had not been affected to a large extent so far.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had recovered. One member said that it continued to see a recovery brought about by private consumption in particular, although there had been headwinds such as the spread of the Omicron variant and supply-side constraints. A few members expressed the view that wage increases and a significant rise in inflation rates continued in the United States on the back of (1) economic expansion and tightened labor market conditions, (2) prolonged supply-side constraints, and (3) elevated raw material prices. Meanwhile, one member noted that the fact that the level and slope of the yield curve for the country remained low, despite continued high inflation and the projected policy rate hikes, suggested that low growth, low inflation, and low interest rates might take hold in the long run.

Members shared the view that the European economy had recovered. One member said that it continued to recover on the whole, although there had been moves to retighten public health measures in some areas due to an increase in the number of confirmed COVID-19 cases. A different member mentioned that the economic recovery trend was being maintained, as evidenced by the fact that, although the Purchasing Managers' Index (PMI) for the euro area had declined -- mainly affected by the spread of COVID-19 and supply-side constraints -- it had still clearly exceeded the 50 mark. One member said that, unlike in the United States and the United Kingdom, a clear rise in wages had not materialized in the euro area, although price rises that were higher than the European Central Bank (ECB)'s projection had lasted somewhat.

Members agreed that the Chinese economy had recovered as a trend, but the pace of improvement remained slow. Some members expressed the view that the pace had decelerated due to adjustments in the real estate sector and the implementation of severe limitations on economic activities under the zero-Covid policy.

Members shared the recognition that emerging economies other than China had picked up. One member noted that, economies of emerging countries such as the ASEAN countries had picked up, supported by the steady rise in vaccination rates, despite heightened vigilance against the spread of the Omicron variant.

Members concurred that financial conditions in Japan had been accommodative on the whole, although weakness in firms' financial positions remained in some segments. One member said that they had been accommodative with the financial system remaining stable on the whole, although lingering effects of COVID-19 and supply-side constraints as well as the impact of raw material cost increases on economic activity warranted attention. A different member expressed the recognition that the partial extension of the Special Program decided at the previous meeting had been calmly received by market participants and financial institutions. This member then noted that, despite the recent spread of COVID-19, there were no particular signs of volatile movements in the CP and corporate bond markets, and firms' funding environment remained extremely accommodative.

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 a pick-up had become evident as the impact of COVID-19 at home and abroad had waned gradually. One member said that it was appropriate to revise upward the Bank's economic assessment considering that both the corporate and household sectors had improved concurrently.

Members agreed that exports and production continued to increase as a trend on the back of the recovery in overseas economies, despite the remaining effects of supply-side constraints. Some members expressed the view that, with the alleviation of supply-side constraints on parts stemming from the spread of COVID-19 in Southeast Asia, exports and production of automobile-related goods for November 2021 had recorded substantial increases and those of digital-related goods and goods related to business fixed investment had been solid for the same period.

With regard to the corporate sector, members shared the recognition that corporate profits and business sentiment continued to improve on the whole and that business fixed investment had picked up under the circumstances, despite weakness being seen in some industries. One member stated that corporate profits remained on an uptrend underpinned by an increase in the sales volume, although they had been affected by downward pressure from a rise in commodity prices; in this situation, business fixed investment had started to become active, particularly in growth areas. One member expressed the recognition that digitalization and a climate change response, for which Japanese firms had been putting off efforts, had become urgent issues with respect to their business growth. The member continued that the loan disbursement made under the Climate Response Financing Operations in December 2021 suggested that efforts to address climate change, including those by small and medium-sized firms, might be undertaken at a large scale, and it was therefore necessary for the Bank to thoroughly gather information and make an analysis of firms' initiatives and investment plans pertaining to climate change. As for the relationship between foreign exchange rates and corporate activities, one member commented that Japanese firms had been expanding and sophisticating their overseas activities in terms of production, sales, investment, and fund management, and thus the effects of movements in exchange rates had become more complex.

Members agreed that a pick-up in private consumption had become evident, with downward pressure stemming from COVID-19, particularly on services consumption, waning. Some members expressed the view that private consumption, including face-to-face services consumption, had clearly picked up through the year-end and the start of 2022, reflecting the low level of confirmed COVID-19 cases and an easing of limitations on economic activities. One of these members said that socioeconomic activities seemed to have started to return to normal at the year-end and the start of 2022, as seen in the increased number of people visiting their hometowns, making New Year's visits to shrines or temples, and participating in New Year sales. Moreover, regarding the effects of exchange rate movements on consumption-related business sentiment, one member pointed out that there were few comments referring to the yen's depreciation in the *Economy Watchers Survey* of late, and it was not confirmed that exchange rate movements were having an impact on sentiment.

As for prices, members agreed that the year-on-year rate of change in the CPI, despite being affected by the reduction in mobile phone charges, had been slightly positive, reflecting price rises of energy and other items. One member said 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 positive at around 0.5 percent. In addition, a different member pointed out that the indicators for capturing the underlying trend in the CPI -- namely, the trimmed mean, the weighted median, the mode, and the diffusion index of price changes (the share of price-increasing items minus the share of price-decreasing items) -- had risen moderately, reflecting a wider range of price rises, mainly in goods. A few members were of the view that, as seen in the high rate of increase in the PPI for the first time in four decades, firms had been passing on cost increases to prices more actively, particularly for goods traded among firms. One of these members expressed the recognition that many positive reports regarding firms' price-setting stance were made at the January 2022 meeting of general managers of the Bank's branches. Meanwhile, one member said that the recent decline in the GDP deflator indicated that firms had been unable to sufficiently pass on a rise in import prices to domestic selling prices. This member then expressed the view that the current situation of prices should be assessed based on a wide range of indicators, such as those capturing the underlying trend in the CPI, the GDP deflator, and those showing developments in employment and income. A different member commented that it was necessary to deepen the analysis of prices while using outside expertise, such as the analysis of (1) the background to weak prices in Japan relative to those in Europe and the United States, (2) the usefulness of various core indicators in judging the underlying trend in prices, and (3) the relationship of the price index to people's perception of inflation and the actual costs of living. One member stated that it was necessary to pay attention to the possibility that, if prices of a wide range of goods related to consumers' daily lives rose, disparity could expand between the inflation rate shown in the price statistics and people's perception of inflation regarding costs of living.

Members agreed that inflation expectations had risen moderately. One member assessed that inflation expectations had done so among households, firms, and experts, albeit mainly in terms of short-term expectations.

B. Outlook for Economic Activity and Prices

In formulating the January 2022 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report), members discussed the baseline scenario of the outlook for Japan's economic activity. They concurred that Japan's economy was likely to recover as downward pressure stemming from COVID-19 on services consumption and the effects of supply-side constraints waned, while being supported by the increase in external demand, accommodative financial conditions, and the government's economic measures. Members also agreed that, thereafter, as a 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 above its potential growth rate. One member said that, if more people gained a sense of assurance as the Omicron variant turned out to be attenuated and as progress was made with the third dose of the vaccine and approval of an oral antiviral medicine, a strong economic recovery accompanied by an increase in pent-up demand could be expected. A different member commented that, if Japan's economy could overcome the impact of the Omicron variant, the momentum for recovery would strengthen gradually as a trend. On the other hand, one member expressed the view that the adverse effects of supply-side constraints on production of automobile-related goods and business fixed investment had become larger than the assessment presented in the October 2021 Outlook Report. A different member was of the view that, as more areas would likely be under priority measures to prevent the spread of disease, it was inevitable that moves to voluntarily limit economic activities would spread among the public to some extent; thus, compared to the forecast in the October Outlook Report, there could be somewhat of a delay in the timing at which real GDP would return to the pre-pandemic level.

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. One member presented the view that the spread of the Omicron variant had been weighing on global economic recovery; however, if signs of COVID-19 subsiding started to be seen, the pace of recovery in the global economy would likely accelerate.

Members agreed that Japan's exports of goods, mainly automobile-related ones, were expected to increase clearly for the time being as supply-side constraints on parts waned. They also concurred that, thereafter, such exports were projected to continue increasing on the back of firm expansion in global demand, including for digital-related goods. Members shared the view that production was expected to increase firmly, supported by steady external demand, as the effects of supply-side constraints waned.

Members concurred that an uptrend in business fixed investment was expected to become clear -- mainly for machinery and digital-related investments as well as for research and development (R&D) investment related to decarbonization -- supported by improvement in corporate profits, accommodative financial conditions, and the government's economic measures, although weakness was projected to remain for the time being in investment by the face-to-face services sector. One member said that sustained growth in demand for business fixed investment could be expected on the back of, for example, (1) an increase in production capacity, particularly of semiconductors, for which global demand continued to expand, (2) responses to climate change, (3) urban development projects, and (4) an expansion of logistics facilities. A different member commented that attention was being paid to whether the results of business fixed investment for fiscal 2021 and the plans for fiscal 2022 would suggest a continuation of growth momentum for such investment. This member then expressed the view that it was important to analyze developments not only in business fixed investment in tangible assets but also in intangible asset investment, including in human capital, R&D, and software.

Members agreed that private consumption, despite being restrained for the time being, mainly through vigilance against COVID-19, was expected to recover, supported by the materialization of pent-up demand -- such as for services -- and by the government's economic measures, as the resumption of consumption activities progressed while public health was being protected, mainly due to the widespread vaccinations. They also shared the view that, thereafter, private consumption was projected to continue increasing at a slower but moderate pace, supported by improvement in employee income. One member said that such consumption was expected to be pushed down again in the January-March quarter of 2022 as the spread of the Omicron variant restrained pent-up demand, mainly for face-to-face services; however, consumption activity thereafter was projected to be boosted in stages while public health was being protected via progress with the third dose of the vaccine.

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 with acute labor shortage. In relation to the outlook for wages, one member said that attention was warranted on the effects of the government's initiatives to encourage wage increases and the outcome of the annual spring labor-management wage negotiations in 2022 with such initiatives in place. A different member pointed out that downward rigidity in regular employees' wages had been embedded in the employment systems in Japan, and this had translated into upward rigidity stemming from firms trying to avoid raising wages. On this basis, the member said that wages were less likely to rise in Japan compared with Europe and the United States, but if labor market conditions tightened to reach a certain threshold, that could rapidly prompt widespread wage increases. A different member pointed out that, at present, a decrease in labor supply and an increase in wages had only been partially observed. This member then expressed the view that future developments in wages and income would depend on the degree to which demand would be boosted by the government's economic measures and the withdrawal of forced savings. Meanwhile, one member commented that a further increase in the labor force participation rate was unlikely to be seen as baby boomers were reaching their mid-70s, and therefore it was important to improve productivity.

Based on this discussion, members concurred that, comparing the projections with those in the October 2021 Outlook Report, the baseline scenario of the outlook for the economic growth rate for fiscal 2021 was lower due to the effects of supply-side constraints, but that for fiscal 2022 was higher, mainly on the back of the effects of the government's economic measures and a recovery in production to catch up with demand.

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 in positive territory for the time being, albeit with fluctuations, on the back of a rise in energy prices, a moderate pass-through of raw material cost increases, and dissipation of the effects of the reduction in mobile phone charges. Members also shared the view that, thereafter, although the positive contribution of the rise in energy prices was projected to wane, the rate of increase in the CPI was expected to stay at around 1 percent toward the end of the projection period, due to the underlying inflationary pressure stemming mainly from improvement in the output gap and a 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 around the first half of fiscal 2022 with the economy returning to a growth path that outpaced its potential growth rate, and then continue to expand moderately. 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, from April 2022 onward, the year-on-year rate of change in the CPI might momentarily rise to a level close to 2 percent if the effects of the reduction in mobile phone charges dissipated and other factors simultaneously contributed to pushing up the CPI. The member then said that, thereafter, it would become important to analyze what lay behind this inflation and whether it would turn out to be sustainable. A different member commented that there was a possibility that the year-on-year rate of change in the CPI would reach around 1.5 percent temporarily in the first half of 2022; that said, whether the rate thereafter would come close to the price stability target of 2 percent and stay at that level with the inflation momentum being maintained depended on developments in wage inflation and medium- to long-term inflation expectations, and moreover the strength in demand that determines such developments. One member expressed the view that inflationary pressure would increase, as the pandemic would likely prompt many firms to acknowledge the limitation of their "low-margin, high-turnover" business models -- which had been effective during the deflationary period -- and change their price-setting behavior. Noting that the stock prices of firms announcing price hikes had tended to rise recently, a different member said that, in the current situation where the markets were paying attention to firms' ability to raise prices, there was a possibility that such moves to raise prices would spread further, leading to a rise in medium- to long-term inflation expectations. Meanwhile, one member commented that, although changes had been observed in firms' price-setting behavior and inflation expectations, achieving the price stability target by the end of fiscal 2023 was difficult given developments in the output gap and inflation expectations.

Many members expressed the recognition that, with the pass-through of raw material cost increases expected to continue, it had become increasingly important to examine the underlying trend in consumer prices, and from this perspective, they were closely monitoring developments in wages, which determine a large part of services prices and affect households' tolerance of price rises. One member said that it was important to carefully examine the underlying trend in prices from the viewpoint of whether inflation from fiscal 2022 onward would also spread to services, for which prices were considered to be rigid, and whether it would be sustainable in the sense that it would be accompanied by increases in wages and income. A different member expressed the view that, in order for the CPI to increase as a trend, it was necessary that services prices rise along with wage increases. On this basis, the member said that, although wages were less likely to rise in Japan compared with Europe and the United States, if the output gap improved and the pass-through of cost increases became feasible, wage inflation was expected to increase with the government encouraging firms to raise wages. One member commented that the rate of increase in the PPI remained high and the increase was expected to be passed on to the CPI, at least to some extent. The member continued that, given this possible pass-through and various measures taken by the government to encourage wage increases, attention was being paid to whether people's medium- to long-term inflation expectations would rise through the adaptive formation mechanism and their tolerance of price rises would improve.

Based on this discussion, members agreed that, compared with the previous projections in the October 2021 Outlook Report, the baseline scenario of the outlook for prices for fiscal 2022 was somewhat higher, mainly reflecting the rise in commodity prices and the pass-through of that rise to consumer prices.

Meanwhile, members also exchanged views regarding the financial conditions on which the above outlook for economic activity and prices was based. They shared the recognition that, as the Bank pursued Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, financial conditions would remain accommodative and that this would support an increase in private demand. One member commented that it was necessary to carefully monitor how the spread of the Omicron variant would affect financial positions, mainly of small and medium-sized firms, such as those in the face-to-face services industry.

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

First, concerning risks to economic activity, members concurred that the impact of COVID-19 on private consumption, as well as on firms' export and production activities, warranted attention. Particularly, they shared the recognition that, if people's vigilance against COVID-19 became entrenched due, for example, to the spread of highly contagious variants, there was a risk that private consumption would be pushed down. One member noted that cancellations of travel plans and a decrease in the number of visitors to restaurants had begun to be observed since the turn of 2022, due to the impact of the Omicron variant. The member then said that, considering the strong risk aversion of Japanese consumers, it was necessary in the short run to take into account the possibility of further downward pressure being exerted on the economy. A different member commented that, amid the spread of the Omicron variant, it was necessary to closely monitor how efforts would be made to sustain the resumption of economic activity while protecting public health, as well as how consumer sentiment would change under the circumstances. One member said that attention should be paid to whether a prolonged COVID-19 pandemic would bring about a further waning of appetite for consumption and investment and would produce scarring effects, including deterioration in human capital. In addition, members shared the recognition that, in the case where COVID-19 cases surged in areas such as Asia, which is closely related to Japan's economy, with global supply-demand conditions of digital-related goods such as semiconductors remaining tight, export and production activities of Japanese firms could be pushed down through supply-chain disruptions. In relation to this, one member noted that, at the January meeting of general managers of the Bank's branches, there was a relatively large number of reports that firms continued to be able to just barely procure necessary parts. On this basis, a few members, including this member, expressed the view that attention was warranted on the risk that, in Asia -- particularly in China, under its zero-Covid policy -- the spread of COVID-19 would induce, for example, a suspension of operations at factories, thereby amplifying supply-side constraints. On the other hand, members shared the view that, if people's vigilance against COVID-19 lessened significantly with the widespread vaccinations and the rollout of antiviral medicines, economic activity could be pushed up through, for example, a larger-than-expected increase in pent-up demand for services consumption. One member said that the situation since October 2021 -- when public health measures were lifted -- suggested that Japan's economy had sufficient capacity for recovery on the condition that COVID-19 would subside. The member then pointed to the possibility that the pace of economic recovery would be faster than expected if the existing adverse effects of the variants wore off.

Also concerning risks to economic activity, members shared the recognition that developments in overseas economies warranted attention. As specific downside risks to overseas economies, they agreed on the following: (1) supply-side constraints that mainly stem from the stagnation of logistics and labor shortage could become prolonged or amplified in advanced economies such as the United States; (2) with the medium- to long-term growth potential declining, signs of a slowdown in the Chinese economy could become clearer due, for example, to the effects of adjustments in its real estate sector; and (3) global financial conditions could tighten by more than expected amid concern in global financial markets over steps taken by advanced economies toward reducing monetary accommodation. Some members expressed concern about the risk that adjustments would be made to asset prices as a result of a reduction in monetary accommodation in the United States. One of these members said that there was a possibility that policy rate hikes in the United States would lead capital to flow out of emerging economies, causing them to conduct policy rate hikes to prevent the outflow, thereby negatively affecting recovery in such economies. On the other hand, members shared the view that there was also a risk that overseas economies, mainly for consumption activities, could be pushed up through, for example, rapid spending of household savings that had accumulated significantly in the respective economies.

As for other risks, members agreed that developments in commodity prices also warranted close attention. Specifically, they shared the view that, if the rise in commodity prices became prolonged or was not smoothly passed on to selling prices, Japan's economic recovery trend could be negatively affected, mainly through deterioration in corporate profits. As risks considered from a somewhat long-term perspective, members also concurred that there were uncertainties over whether firms' and households' medium- to long-term growth expectations would go upward or downward.

Regarding risks to prices, members agreed that, if the aforementioned risks to economic activity materialized, prices were likely to be affected accordingly. Members also discussed risks specific to prices. They concurred that there were high uncertainties over firms' price-setting behavior, which could exert either upward or downward pressure on prices. Specifically, members agreed that, depending on the degree of upward pressure from raw material costs and on developments in firms' inflation expectations, the pass-through of cost increases to selling prices -- which, in the baseline scenario of the outlook for prices, was projected to progress moderately -- could accelerate by more than expected and lead prices to deviate upward from the baseline scenario. One member said that there was a possibility that firms would accelerate the pass-through of cost increases to selling prices, including earlier rises in costs, if they considered a recovery in private consumption to be robust against rises in selling prices. On the other hand, members shared the following view: given that, in Japan, the behavior and mindset based on the assumption that prices would not increase easily were deeply entrenched, mainly among firms, there was a risk that the pass-through of cost increases to selling prices, particularly to downstream or consumer prices, which are closer to final demand, would not progress, and that prices would deviate downward from the baseline scenario. One member noted the possibility that firms would absorb cost increases by reducing their margins due to concern over a decline in sales if they raised selling prices, in the event that the pace of increase in wages did not see a substantial rise.

Concerning additional risks specific to prices, 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. A few members said that there was a risk of energy prices remaining elevated or rising further, mainly due to investment in fossil fuel development becoming constrained as a result of stricter environmental regulations worldwide and to heightened geopolitical risks in some commodity-exporting countries.

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 thereafter. They concurred that risks to prices also were generally balanced.

As risks considered most relevant to the conduct of monetary policy, members discussed developments in Japan's financial system. They agreed that it was maintaining stability on the whole. That said, members shared the recognition that, from a longer-term perspective, if 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 recognition that these risks were not significant at this point. One member said that attention should be paid to the risk that corporate debt accumulated during the pandemic would become nonperforming due to an economic downturn. A different member expressed the recognition that financial institutions' profit environment had deteriorated cumulatively, mainly due to a shrinking of net interest margins under a prolonged low interest rate environment. The member then expressed the view that, if financial institutions' income from remittance fees -- including bank transfer fees -- declined in the future, this could exert further downward pressure on their profits.

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 response to COVID-19 for the time being, members agreed that the three monetary easing measures -- namely, (1) the Special Program, (2) an ample provision of yen and foreign currency funds without setting upper limits, and (3) purchases of ETFs and J-REITs -- had been exerting their intended effects. They also agreed that it was important for the Bank to continue to support financing, mainly of firms, and maintain stability in financial markets through the three monetary easing measures. On this basis, members concurred that the Bank for the time being would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary. One member stated that, as the rapid spread of the Omicron variant had heightened uncertainties over the outlook for economic activity and prices, the Bank should continue to do its utmost to support financing, mainly of firms, and maintain stability in financial markets for the time being. The member continued that it was thus appropriate for the Bank to maintain the current monetary easing. A different member said that, given, for example, that part of economic activity was still affected by COVID-19, it was necessary to examine the impact of the partial extension of the Special Program decided at the previous meeting.

Members then discussed the Bank's basic stance on its future conduct of monetary policy. One member emphasized that, although the inflation rate was expected to show a clear rise in Japan, as in other countries, around spring 2022, since it would still take time to achieve the price stability target of 2 percent in a stable manner, there had been no change in the Bank's basic thinking that it should continue with the current powerful monetary easing. One member expressed the view that, in order to achieve the 2 percent price stability target, firms' and households' mindset regarding prices needed to change, and it was therefore important for the Bank to persistently continue with the current monetary policy. A different member stated that, in Europe and the United States, steps had been taken toward reducing monetary accommodation, with concerns over the second-round effects of the recent price rises on wages and inflation expectations; in Japan, however, monetary easing was essential, since medium- to long-term inflation expectations had not been anchored to begin with and a rise in wages was still sought. Moreover, this member said that the most certain way to anchor such inflation expectations with a view to achieving the 2 percent target was to continue with monetary easing until the year-on-year rate of increase in the observed CPI confirmed that inflation of 2 percent had taken hold. One member pointed out that, in many advanced economies, the rate of increase in nominal wages had in principle outpaced the inflation rate. The member then expressed the view that, in order for Japan to achieve the 2 percent price stability target in a stable manner, it was crucial that the rate of increase in nominal wages exceeded 2 percent. Meanwhile, one member pointed out that the Bank should strengthen its monetary easing stance with a view to improving the output gap and inflation expectations, and thereby achieve an economic recovery and the price stability target early. A different member was of the view that sustainable economic growth, accompanied by an expansion in the flow of funds through (1) a continued increase in firms' investment in tangible and intangible assets, (2) creation of new products and businesses by firms, and (3) a rise in wages, was necessary to achieve the 2 percent price stability target. The member continued that, in order to realize such growth, dynamism of the labor force and firms as well as investment in human capital should be encouraged.

Many members then expressed their opinions on the importance of providing an explanation to the public about continuing with powerful monetary easing. In relation to the partial extension of the Special Program decided at the previous meeting, a few members pointed out the possibility that, if the monetary base turned to a decrease due to the partial completion of fund-provisioning under the Special Operations to Facilitate Financing scheduled at the end of March 2022, that might be misunderstood as being a result of a reduction in monetary accommodation. On this basis, one of these members said that it was necessary to clearly explain once again that, under the current framework of QQE with Yield Curve Control, the amount outstanding of the monetary base could fluctuate in the short run depending on, for example, market developments, and that the inflation-overshooting commitment showed the Bank's stance to expand the monetary base over a long period. Another member noted that, when communicating to the public, it was important that the Bank make a clear distinction between an exit from its COVID-19 response measures and an exit from its monetary easing policy. Moreover, some members were of the opinion that, to avoid any misunderstandings, it was important for the Bank to clearly communicate to the public that it would continue with monetary easing until CPI inflation met the 2 percent price stability target in a stable and sustainable manner. One of these members added that the Bank needed to explain this stance to the public, together with its thinking on desirable inflation vis-à-vis developments in Japan's economy. A different member stated that, although more discussions could arise in the future that focused on the adverse effects of inflation -- mainly on households' real income -- the Bank should thoroughly explain that the intention of continuing with its monetary easing policy was not only to raise prices but also to enable the economy to return to a growth path accompanied by an increase in wages.

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 QQE with Yield Curve Control, aiming to achieve the price stability target of 2 percent, as long as it was necessary for maintaining that target in a stable manner, and (2) continue expanding the monetary base until the year-on-year rate of increase in the observed CPI (all items less fresh food) exceeded 2 percent and stayed above the target in a stable manner.

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) On January 17, 2022, the government submitted to the Diet the budget for fiscal 2022. With the so-called 16-month budget, which combined the fiscal 2022 budget and the supplementary budget for fiscal 2021, the government would realize a new form of capitalism through a virtuous cycle of growth and distribution while taking all possible measures to contain the spread of COVID-19. The budget aimed at putting priority on certain areas based on the guiding principles in the budget formulation that were outlined in the Basic Policy on Economic and Fiscal Management and Reform 2021.

(2) The government would work to obtain approval from the Diet for the budget at the earliest possible time so that it could do its utmost with regard to containing the spread of COVID-19 as well as economic and fiscal management.

(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 had shown signs of a pick-up recently as the severe situation due to the impact of COVID-19 was gradually easing. However, amid the ongoing spread of the Omicron variant, full attention should be given to (1) downside risks to economic activity due to the impact of COVID-19 on domestic and overseas economies, supply-side constraints, and raw material prices, as well as (2) the effects of fluctuations in the financial and capital markets.

(2) The government would further strengthen the series of steps of prevention, testing, and early treatment of COVID-19 and accelerate administration of the third dose of the vaccine in order to create an environment where socioeconomic activities could continue as much as possible, and thereby ensure safety and security.

(3) The government would swiftly and steadily implement its economic measures to prevent further deterioration in the economy, realize a virtuous cycle of growth and distribution, and in turn put the economy on a self-sustained growth path.
(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 January 2022 Outlook Report (consisting of "The Bank's View" and "The Background"). To reflect the view of the members, the chairman formulated a proposal on "The Bank's View" and put it to a vote. The Policy Board decided the text of "The Bank's View" by a unanimous vote. It was confirmed that "The Bank's View" would be released immediately after the meeting. It also was confirmed that the full text of the Outlook Report would be made public on January 19.

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of December 16 and 17, 2021, for release on January 21, 2022.

Attachment
January 18, 2022
Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided upon the following.

   (1) Yield curve control

   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 decided, by a unanimous vote, to extend by one year the deadline for loan disbursement under the Fund-Provisioning Measure to Stimulate Bank Lending.

3. 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.