Not to be released until 8:50 a.m. Japan Standard Time on Tuesday, July 26, 2022.

July 26, 2022

Bank of Japan

Minutes of the Monetary Policy Meeting

on June 16 and 17, 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 Thursday, June 16, 2022, from 2:00 p.m. to 3:59 p.m., and on Friday, June 17, from 9:00 a.m. to 11:36 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. OKAMOTO Mitsunari, State Minister of Finance, Ministry of Finance[2]

Mr. SHINKAWA Hirotsugu, Director-General of the Minister's Secretariat, 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

Ms. SHIMIZU Tokiko, Executive Director (Assistant Governor)

Mr. KAIZUKA Masaaki, Executive Director

Mr. NAKAMURA Koji, Director-General, Monetary Affairs Department

---

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on July 20 and 21, 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. Okamoto and Kikawada were present on June 17.

[3] Messrs. Shinkawa and Inoue were present on June 16.

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

Mr. FUJITA Kenji, Director-General, Financial Markets Department

Mr. OTANI Akira, 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. CHIDA Hidetsugu, Director-General, Secretariat of the Policy Board

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

Mr. HIGASHI Masato, Senior Economist, Monetary Affairs Department

Mr. ANDO Masatoshi, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[4]

A. Market Operations in the Intermeeting Period

In accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both of which were decided at the previous meeting on April 27 and 28, 2022, the Bank had been conducting purchases of Japanese government bonds (JGBs).[5] Under the guideline for fixed-rate purchase operations for consecutive days decided at that meeting, it had also conducted outright purchases of 10-year JGBs at 0.25 percent through the fixed-rate method every business day. Moreover, with strong selling pressure observed in government bond futures markets, the Bank had carried out fixed-rate purchase operations for consecutive days of JGBs with a remaining maturity of seven years, which corresponds to that of the cheapest-to-deliver issues. 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.

The Bank had been purchasing exchange-traded funds (ETFs), Japan real estate investment trusts (J-REITs), CP, and corporate bonds in accordance with the guideline for asset purchases decided at the previous meeting. In addition, it had conducted the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) (the Special Operations to Facilitate Financing) to support financing, mainly of firms.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments generally had been in negative territory. With regard to interest rates on overnight instruments, the uncollateralized call rate had been in the range of around minus 0.005 to minus 0.045 percent; general collateral (GC) repo rates had been in the range of around minus 0.083 to minus 0.128 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been more or less flat.

The Tokyo Stock Price Index (TOPIX) had temporarily declined in line with stock prices in the United States and Europe but was more or less unchanged from the level

---

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

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

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

observed at the time of the previous meeting, underpinned in part by a depreciation of the yen. Long-term interest rates (10-year JGB yields) had been at around 0 percent under yield curve control, although they had temporarily been subject to increased upward pressure that reflected, for example, developments in U.S. interest rates and market speculation over the Bank of Japan's monetary policy. In the foreign exchange market, the yen had been depreciating against the U.S. dollar and the euro, mainly reflecting rises in U.S. and European interest rates.

C. Overseas Economic and Financial Developments

Overseas economies had recovered on the whole, albeit with some weakness seen in part. Against the background of lockdowns in China and the prolongation of the situation surrounding Ukraine, downward pressure on overseas economies had intensified and the global production level of the manufacturing industry and the world trade volume had been pushed down. Nevertheless, business sentiment continued to improve with the impact of COVID-19 waning and the resumption of economic activity, including in emerging economies, starting to become full-scale. As for the outlook, despite downward pressure from the effects of the situation surrounding Ukraine in particular, overseas economies were likely to continue recovering on the whole as the impact of COVID-19 waned. That said, there were high uncertainties for the time being, mainly over the course of the pandemic in China, developments in the situation surrounding Ukraine, and the effects of reduced monetary accommodation in advanced economies in response to rises in inflation.

With regard to developments in overseas economies by region, the U.S. economy had recovered. Private consumption continued to increase, amid the withdrawal of accumulated savings and with a shift in consumption patterns from goods to services being observed. While the number of employees continued to rise, the labor market remained tight, with the labor force participation rate recovering at only a moderate pace and the job openings-to-applicants ratio and turnover rates still being high. As for the corporate sector, sentiment kept improving and fixed investment continued to increase. Regarding price developments, the personal consumption expenditure (PCE) deflator had marked a high increase in the range of 6.0-6.5 percent on a year-on-year basis, mainly due to the effects of tight supply-demand conditions.

European economies had recovered as a trend. Despite downward pressure from a rise in energy prices, private consumption had recovered as a trend, particularly for services consumption, on the back of continued resumption of economic activity. With regard to the corporate sector, in a situation where sentiment kept improving, fixed investment had also risen as a trend. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) had been high at around 8 percent, due in part to the rise in energy prices and the impact of supply-side constraints.

The Chinese economy had been pushed down by strict public health measures in light of the spread of COVID-19. Private consumption had decreased substantially, due mainly to the effects of movement restrictions, also in response to the spread. Production had declined, mainly affected by sluggish corporate activity and disruptions in logistics due to the lockdowns. Fixed asset investment had picked up as a trend, supported in part by infrastructure investment, but the pace of improvement had slowed due to the spread of COVID-19.

Emerging economies other than China had picked up on the whole, although some economies had been pushed down by the effects of the situation surrounding Ukraine. The NIEs and the ASEAN countries had recovered because, although exports to China had been relatively weak, overall exports continued to increase and domestic demand kept improving on the back of progress in the resumption of economic activity.

With respect to overseas financial markets, long-term interest rates in advanced economies had risen significantly. The factor behind the rise was heightened vigilance against an acceleration in the pace of policy rate hikes by the Federal Reserve and the European Central Bank reflecting elevated inflation in the United States and Europe. In this situation, stock prices, particularly in the United States, had declined substantially. Crude oil prices had risen, mainly because concerns over a tightening of supply-demand conditions for crude oil had grown against the background of the European Union's decision to ban imports from Russia for items including crude oil arriving by sea, as well as an easing of public health measures in China. With regard to currencies in emerging economies in the foreign exchange market, while there were currencies that had depreciated as U.S. interest rates rose, the Russian ruble continued to appreciate, partly due to the effects of capital controls. Currencies in Latin America also had appreciated on the back of firm commodity prices.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had picked up as a trend, although some weakness had been seen in part, mainly due to the impact of COVID-19 and a rise in commodity prices. Regarding the outlook, the economy was likely to recover, with the impact of COVID-19 and supply-side constraints waning and with support from an increase in external demand, accommodative financial conditions, and the government's economic measures, although it was expected to be under downward pressure stemming from the rise in commodity prices due to factors such as the situation surrounding Ukraine.

Exports and industrial production continued to increase as a trend, but the effects of supply-side constraints had intensified lately. Developments in real exports by goods were as follows. IT-related exports had decreased recently, mainly affected by the lockdowns in China, although demand for goods such as semiconductors for smartphones and data centers seemed to have been firm. Exports of automobile-related goods had also decreased recently, reflecting tight global supply-demand conditions for semiconductors, as well as the impact of parts procurement difficulties due to the lockdowns in China. On the other hand, exports of capital goods -- despite a substantial decrease in those to China -- had been at a high level, supported by steady machinery investment on a global basis and by strong demand for semiconductor production equipment that reflected the expansion in demand for digital-related goods. With regard to the outlook, exports and industrial production were expected to be relatively weak in the short run, in a situation where effects such as of disruptions in distribution networks due to the lockdowns in China remained. Thereafter, as overseas economies continued to recover on the whole and the effects of supply-side constraints gradually waned, they were likely to follow an increasing trend, mainly for automobile-related goods and digital-related goods, with the latter seeing an expansion in global demand.

Corporate profits had been at high levels on the whole. Business sentiment had seen a pause in its improvement recently, mainly due to the impact of supply-side constraints and the rise in commodity prices. Looking at the *Financial Statements Statistics of Corporations by Industry, Quarterly*, current profits for all industries and enterprises for the January-March quarter (seasonally adjusted) had stayed at a high level.

Business fixed investment had picked up, although weakness had been seen in some industries. Real business fixed investment on a GDP basis for the January-March quarter registered a slight decline of minus 0.7 percent on a quarter-on-quarter basis, due in part to the effects of supply-side constraints. The aggregate supply of capital goods -- a coincident indicator of machinery investment -- had been on an increasing trend, mainly for digital- and labor saving-related investments, although the effects of supply-side constraints had been seen in some capital goods. Private construction completed (nonresidential) -- a coincident indicator of construction investment -- continued to increase moderately in nominal terms, partly due to a rise in construction of logistics facilities and to progress in urban redevelopment projects. With regard to the outlook, as corporate profits remained at high levels despite being affected by the rise in commodity prices, an uptrend in business fixed investment was expected to become clear on the back of accommodative financial conditions and the waning of supply-side constraints. Looking at leading indicators of business fixed investment, machinery orders (private sector, excluding orders for ships and those from electric power companies) had increased, albeit with fluctuations, and construction starts (in terms of planned expenses for private and nonresidential construction) had also increased when fluctuations were smoothed out.

Private consumption had picked up, particularly for services consumption, with the impact of COVID-19 waning. The consumption activity index (CAI; real, travel balance adjusted) for April increased by 2.2 percent relative to the January-March quarter. By type, services consumption, particularly of dining-out and domestic travel, had picked up. On the other hand, durable goods had been at a relatively low level with continued downward pressure from supply-side constraints. Nondurable goods had decreased given the waning of stay-at-home demand, such as for food and daily necessities.

Recent developments in private consumption based on anecdotal information from firms and high-frequency indicators suggested that services consumption had kept picking up with the COVID-19 situation calming down. Consumption of nondurable goods seemed to have been pushed up on the whole by strong sales of clothes that reflected an increased number of people going out. On the other hand, that of durable goods had seen a decline for automobiles and household electrical appliances as supply-side constraints had intensified due to the lockdowns in China. Meanwhile, confidence indicators related to private consumption had improved slightly on the whole, owing to the impact of COVID-19 waning, although inflation had created downward pressure. Regarding the outlook, private consumption was expected to be pushed down by deterioration in real income due to rises in energy and food prices. However, it was projected to recover, particularly led by the materialization of pent-up demand, as the resumption of economic activity progressed gradually while public health was being protected and as the employment situation improved.

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 risen moderately for regular employees, mainly in the medical, healthcare, and welfare services industry as well as the information and communications industry; however, it remained at a relatively low level for non-regular employees, especially in the face-to-face services industry. Total cash earnings per employee, particularly scheduled cash earnings, had increased moderately, reflecting the pick-up in economic activity. With regard to the outlook, employee income was likely to continue increasing on the back of economic improvement.

As for prices, international commodity prices remained at high levels on the whole, despite being affected by a slowdown in the Chinese 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. With the effects of a reduction in mobile phone charges dissipating, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) had been at around 2 percent, mainly due to the rises in energy and food prices. That in the CPI (all items less fresh food and energy) had been in the range of 1.0-1.5 percent when excluding temporary factors such as the effects of the reduction in mobile phone charges. Meanwhile, inflation expectations, particularly short-term ones, had risen. Specifically, short-term inflation expectations had increased clearly on the whole, mainly due to the effects of the recent rise in commodity prices. Medium- to long-term expectations had also risen, albeit at a moderate pace relative to short-term ones. With regard to the outlook, the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be at around 2 percent for the time being due to the impact of the rises in energy and food prices.

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 had been seen, 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 had been favorable. Those for corporate bonds also had been favorable on the whole. 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 1 percent and in the range of 9.5-10.0 percent, respectively; their amounts outstanding remained at high levels. The environment for external funding was still 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 been on an improving trend on the whole on the back of the pick-up in Japan's economy, regardless of the fact that weakness remained, particularly for firms in industries susceptible to the impact of COVID-19 as well as for small and medium-sized ones, and that financial positions had been affected by raw material cost increases.

The year-on-year rate of change in the monetary base, while declining compared with a while ago, had been positive, at around 4.5 percent recently. That in the money stock also had been positive, in the range of 3.0-3.5 percent.

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

A. Economic Developments

Members shared the view that global financial and capital markets had been somewhat volatile, as seen, for example, in the substantial decline in stock prices while vigilance had heightened against the acceleration in the pace of policy rate hikes in the United States and Europe in response to the rises in inflation. One member expressed the view that, if inflation rates across countries actually declined due to monetary tightening, financial markets would likely regain stability gradually; however, until such a scenario became more evident, volatility in global financial and capital markets was likely to remain high.

Members concurred that overseas economies had recovered on the whole, albeit with some weakness seen in part. Some members expressed the view that a slowdown had started to become evident in these economies due to such factors as the prolongation of the situation surrounding Ukraine and the impact of inflation. As background to the slowdown, one member noted that policy authorities abroad had been shifting their macroeconomic policy objective from supporting their economies in response to the COVID-19 pandemic to curbing inflation. As for the outlook, members agreed that, despite downward pressure from the situation surrounding Ukraine, overseas economies were likely to continue recovering on the whole as the impact of COVID-19 waned. On this basis, a few members pointed to the fact that the World Bank and the Organisation for Economic Co-operation and Development (OECD) had significantly revised down their global economic growth projections for 2022. Members shared the recognition that overseas economies entailed high uncertainties for the time being, mainly due to the following risks: (1) the course of the pandemic in China with its zero-COVID policy remaining in place; (2) developments in the situation surrounding Ukraine; (3) supply-side constraints such as the semiconductor shortage; and (4) the effects of reduced monetary accommodation in response to the global rise in inflation. Many members expressed the recognition that close attention should be paid to what pace policy rate hikes would be conducted in the United States and Europe, which were proceeding with normalization of their monetary policies, and how they would succeed in curbing inflation while sustaining economic growth under such circumstances.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had recovered. On this basis, one member pointed out that signs of deceleration had started to materialize, particularly in the household sector; the Institute for Supply Management (ISM) index for nonmanufacturing and the Purchasing Managers' Index (PMI) for services had been declining recently, although they had still exceeded the 50 mark. A different member said that, in the United States, as the Federal Reserve had been raising its policy interest rate at a fast pace, it was necessary to closely monitor whether or not the housing market -- in which sales seemed to have shown signs of a slowdown recently -- and leveraged loan market would deteriorate. On this point, one member commented that the fall in U.S. stock prices had been largely induced by declines in valuation evident in price-earnings ratios, rather than downward revisions to the outlook for corporate profits. The member continued that, therefore, it might still take time for the real economy to decelerate to the extent where it would lead to constraining inflation.

Members agreed that European economies had recovered as a trend. One member pointed out that the impact of the situation surrounding Ukraine had started to become apparent in specific indicators for the euro area, as seen in, for example, the decline in industrial production, the first current account deficit in more than a decade, and the surge in consumer prices. A few members expressed the recognition that the Bank should carefully monitor whether or not downward pressure on European economies would intensify while they were being significantly affected by the situation surrounding Ukraine, as interest rate hikes would also serve to push down these economies. Moreover, one of these members said that there was a risk of stagflation in Europe.

Members shared the view that the Chinese economy had been pushed down by the strict public health measures in light of the spread of COVID-19. One member said that the decline in economic activity was significant for April, due mainly to the effects of the lockdowns, and financial markets were attentive to the possibility of real GDP registering negative growth for the April-June quarter. Regarding the outlook, one member commented that, although lockdowns in Shanghai had been lifted, it would require time for economic activity in the area to normalize, and there was concern about the possibility of a slowdown in economic growth in China and of prolonged supply-side constraints on a global basis. A different member pointed out that, while the effects of the lockdowns in Shanghai had started to dissipate, concerns remained over a potential reimposition of lockdowns with the Chinese government adhering to its zero-COVID policy.

Members shared the recognition that emerging economies other than China had picked up on the whole, although some economies had been pushed down by the effects of the situation surrounding Ukraine. A few members expressed the view that attention was warranted on the risk that factors such as depreciation of currencies, capital outflows, and a rise in inflation -- all triggered by the acceleration in the pace of policy rate hikes in the United States -- would lead to instability in emerging economies.

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

With regard to economic activity, members concurred that the economy had picked up as a trend, although some weakness had been seen in part, mainly due to the impact of COVID-19 and the rise in commodity prices. A few members expressed the view that, although Japan's economy had been under downward pressure due, for example, to supply-side constraints and a surge in prices of imported raw materials, it had picked up as a trend with private consumption improving, particularly for services consumption such as travel. One member said that, along with changes in the number of confirmed cases of COVID-19, Japan's economy had seen repeated fluctuations, mainly for services consumption; however, as people had become used to living with COVID-19, the degree of decline in the economy in response to increases in the number of COVID-19 cases had become smaller.

As for the outlook for economic activity, members agreed that Japan's economy was likely to recover, with the impact of COVID-19 and supply-side constraints waning and with support from the increase in external demand, accommodative financial conditions, and the government's economic measures, although it was expected to be under downward pressure stemming from the rise in commodity prices due to factors such as the situation surrounding Ukraine. They shared the view that, thereafter, as the negative impact of high commodity prices waned and a virtuous cycle from income to spending intensified gradually, the economy was projected to continue growing, albeit more slowly, at a pace above its potential growth rate. One member presented the view that the recovery in Japan's economy would be driven by the increasing number of people going out -- which was mainly due to progress with measures taken against COVID-19 and to an easing of pandemic-related restrictions -- and by the resultant materialization of pent-up demand, especially for services consumption. A different member commented that, while a resumption of inbound tourism consumption would push up the economy, recovery in the number of tourists from China -- which used to account for a considerable proportion of tourists visiting Japan prior to the outbreak of COVID-19 -- might take time as China adhered to its zero-COVID policy.

Members shared the recognition that exports and production continued to increase as a trend, but the effects of supply-side constraints had intensified lately. Some members expressed the view that -- as various supply-side constraints imposed on Japan's economy during the course of recovery from the pandemic, including the semiconductor shortage, had been prolonged -- the impact of the lockdowns in China had intensified downward pressure on Japan's exports and production. With regard to the outlook, members shared the recognition that exports and production were expected to be relatively weak in the short run, in a situation where such effects as of disruptions in distribution networks due to the lockdowns in China remained. They continued that, thereafter, as overseas economies continued to recover on the whole and the effects of supply-side constraints gradually waned, exports and production were likely to follow an increasing trend, mainly for automobile-related and digital-related goods. One member said that, given that external demand had been firm -- partly owing to household savings that had accumulated as a result of pandemic-related restrictions -- the projection that exports and production would return to an increasing trend could be maintained despite a possible delay in their recovery. On the other hand, a different member expressed the recognition that, as the deceleration in overseas economies had started to become clear, the recovery pace of exports and production was highly likely to remain only moderate. Meanwhile, one member noted that, if power shortages became severe, there was a risk that firms' activities, such as production, would be restrained considerably.

Members agreed that corporate profits had been at high levels on the whole. One member expressed the view that, since Japan relies on imports for most of its commodities and energy sources, the rise in commodity prices would put downward pressure on corporate profits through deterioration in the terms of trade. On this point, a different member commented that, although corporate profits remained at high levels on the whole, some weakness had been observed among those of small and medium-sized firms.

Members agreed that business fixed investment had picked up, although weakness had been seen in some industries. A few members said that -- while business sentiment had seen a pause in its improvement, mainly due to the impact of supply-side constraints and the rise in commodity prices -- such investment continued to pick up, particularly in the manufacturing industry. With regard to the outlook, members shared the view that, as corporate profits remained at high levels on the whole despite being pushed down by the impact of the rise in commodity prices, an uptrend in business fixed investment was expected to become clear on the back of accommodative financial conditions and the waning of supply-side constraints.

Members agreed that private consumption had picked up, particularly for services consumption, with the impact of COVID-19 waning. A few members said that activity in the eating and drinking as well as accommodations industries had been gradually resuming, as people had spent the long holiday period from end-April through early May without pandemic-related restrictions for the first time in three years. In addition, one of these members expressed the view that it was also a positive development for the services industry that the Japanese government had reopened its borders to inbound tourists from June. Taking into account, for example, that the *Economy Watchers Survey* continued to show steady improvement in household activity, one member pointed to the possibility that the positive effects brought about by household savings that had accumulated as a result of pandemic-related restrictions and by pent-up demand had served as a buffer thus far against downward pressure from a decrease in real income brought about by price rises. A different member presented the view that it should be noted that the burden on households of price increases differed depending on expenditure shares across household income groups and regions. Regarding the outlook, members shared the view that private consumption was expected to be pushed down by deterioration in real income due to the rises in energy and food prices; however, it was projected to recover, particularly led by the materialization of pent-up demand, as the resumption of economic activity progressed gradually while public health was being protected and as the employment situation improved. One member said that attention was paid to the sustainability of the recovery in private consumption from the summer onward because firms in the face-to-face services industry were still looking forward to the central and local government support measures while travel reservations for the summer had been favorable. A few members expressed the view that a recovery in the services sector was likely to become more evident as the resumption of inbound tourism progressed. One of these members noted that, owing to household savings that had accumulated as a result of pandemic-related restrictions, the recovery in private consumption was expected to be accompanied by a rise in average propensity to consume.

Members agreed that the employment and income situation remained relatively weak on the whole, although improvement had been seen in some parts. One member expressed the recognition that base pay had increased for nine consecutive years as a result of the 2022 annual spring labor-management wage negotiations, with the rate of increase being the second highest in the past nine years; that said, the rate was still lower than the recent inflation rate. On this basis, this member expressed the view that it had been structurally difficult for wages to rise in Japan because labor-management negotiations had long prioritized maintaining employment over raising wages. With regard to the outlook, members shared the view that employee income was likely to continue increasing on the back of economic improvement.

As for <u>prices</u>, members agreed that, with the effects of the reduction in mobile phone charges dissipating, the year-on-year rate of change in the CPI (all items less fresh food) had been at around 2 percent, mainly due to the rises in energy and food prices. One member expressed the view that, although only a slight increase continued to be seen in the weighted median and the mode, price rises had started to take place in a wider range of items, as evidenced by a recent hike in the share of price-increasing items. A different member said that the rate of increase in Japan's CPI had been contained compared with that in other major economies' price indexes. The member then pointed out that this was attributable to the effects of the government's measures to curb drastic changes in fuel oil prices and to the time lag between raw material cost increases and their pass-through to selling prices. Meanwhile, members concurred that inflation expectations, particularly short-term ones, had risen. One member commented that many indicators of inflation expectations -- for example, of firms, households, and market participants -- had increased, in reflection of unprecedented supply shocks, triggered by COVID-19 and the situation surrounding Ukraine, and of the global rise in inflation. The member continued that signs of change had started to be observed in the economic entities' mindset that prices and wages would not rise. A different member also pointed out that signs of change had been seen in firms' and households' mindset regarding prices, with the impact of COVID-19 waning.

With regard to the outlook, members agreed that the year-on-year rate of change in the CPI (all items less fresh food) was likely to be at around 2 percent for the time being due to the impact of the rises in energy and food prices, but it was expected to decelerate thereafter because the positive contribution of the rise in energy prices to the CPI was likely to wane. Meanwhile, they shared the recognition that the year-on-year rate of change in the CPI (all items less fresh food and energy) was expected to moderately increase in positive territory on the back of improvement in the output gap, rises in medium- to long-term inflation expectations and wage inflation, and partly also of the pass-through of raw material cost increases. A few members pointed out that moves to raise prices had been observed recently for such items as food and durable goods. These members then presented the view that the year-on-year rate of change in the CPI excluding energy was also likely to increase. On the other hand, a different member said that the recent rise in inflation was due to higher import prices and therefore would be only temporary. This member continued that achieving the price stability target in a stable manner was difficult given developments in the output gap and inflation expectations. Meanwhile, one member expressed the view that, in order to achieve a virtuous cycle in which income and prices rose in a stable and sustainable manner, firms' efforts to improve productivity and raise wages were important. This member then said that another key to achieving the virtuous cycle was labor market reforms that led to an increase in job changes aimed at increasing income, the growth of startups that created new value, and the promotion of stable asset formation by households.

As for risks to economic activity and prices, members agreed that there were extremely high uncertainties for Japan's economy, including the course of COVID-19 at home and abroad and its impact, developments in the situation surrounding Ukraine, and developments in commodity prices and overseas economies. On this basis, they shared the view that it was necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices. Regarding this point, one member expressed the view that a rapid depreciation of the yen had a negative impact on the economy as it heightened uncertainties about the future and therefore made it difficult for firms to formulate their business plans. A different member pointed out that attention was warranted on the risks that (1) supply-side constraints would be exacerbated by the prolongation of the situation surrounding Ukraine and the lockdowns in China and (2) the global decline in asset prices following monetary tightening in the United States and Europe would push down private consumption and business fixed investment in Japan, mainly through negative wealth effects. One member expressed concern about the risk that price rises would push down private consumption, particularly through deterioration in consumer sentiment, and the risk that the scarring effects of COVID-19 would remain for a prolonged period, mainly in the face-to-face services industry, even after COVID-19 subsided.

B. Financial Developments

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 expressed the view that firms' financial positions -- excluding those of some small and medium-sized firms -- had been stable and the number of bankruptcies of firms had been at a low level. One member pointed out that financial conditions in the nonmanufacturing industry -- particularly the services industry -- had improved with the impact of COVID-19 waning, while those in the manufacturing industry had seen a pause in their improvement, mainly affected by high commodity prices and the lockdowns in China. A different member said that small and medium-sized firms in particular had raised concern over the impact of the recent rise in raw material costs on their financial positions going forward.

III. 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 measures such as the Special Operations to Facilitate Financing had been exerting their intended effects. Some members expressed the recognition that some more time should be taken in examining the impact of COVID-19 on financing, mainly of small and medium-sized firms. These members continued that, on this basis, the treatment of the Special Operations to Facilitate Financing from October 2022 onward should be decided at a future Monetary Policy Meeting. One of these members added that, while the course of the pandemic was still uncertain, the bidding amounts in those operations remained small thus far. Members shared the recognition that there was no change in the Bank's stance that, for the time being, it would closely monitor the impact of COVID-19 and not hesitate to take additional easing measures if necessary.

Members then discussed the Bank's basic stance on its future conduct of monetary policy. They shared the view that Japan's economy was on its way to recovery from the pandemic and had been under downward pressure stemming from the rise in commodity prices; thus, the economy still required strong support from the financial side. They also agreed that it was necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices. On this basis, members shared the recognition that, in order to achieve the price stability target, accompanied by wage increases, in a sustainable and stable manner, the Bank needed to conduct monetary easing while examining economic and financial developments, for which uncertainties had been extremely high. Regarding the relationship between monetary policy and foreign exchange rates, one member reemphasized the necessity of explaining clearly to the public that the aim of monetary policy was to achieve the 2 percent price stability target in a sustainable and stable manner. A different member noted that, although the range of items increasing in price had broadened due to the rise in commodity prices and movements in foreign exchange rates, it could not be said that the price stability target had been achieved amid a virtuous cycle. This member continued that it was therefore appropriate for the Bank to maintain the current monetary policy.

From the viewpoint of achieving the price stability target in a sustainable and stable manner, many members pointed out the importance of wage increases. Specifically, one member said that the continuation of monetary easing could be considered effective to encourage sustained wage hikes by firms. A few members expressed the recognition that, with the output gap remaining negative for more than two years, in order to achieve a sustained rise in wages, which would push up demand, it was appropriate for the Bank to continue with the current monetary easing and thereby firmly support the economy. A different member said that achieving the price stability target of 2 percent required wage increases that exceeded 2 percent inflation; however, with the output gap being negative, Japan's economy had not reached a situation where labor market conditions were likely to accelerate a rise in wages. This member continued that, on this point, the economic environment in Japan had been different from that in the United States and Europe, where monetary accommodation had been reduced. One member pointed out that, in order to achieve the price stability target in a stable manner, it was necessary to provide a resilient economic environment where private consumption continued to expand through rises in households' purchasing power and inflation expectations, even when firms changed their selling prices. A different member expressed the view that, while assessing data in real time, particularly on underlying inflation and inflation expectations, the Bank should continue with monetary easing until it became certain that wages had increased as a trend and to the point where the price stability target was achieved in a sustainable and stable manner. This member also expressed the view that, in order to close Japan's negative output gap and increase income and employment, it was necessary for the Bank to aim at achieving a high-pressure economy by stimulating the economy, in coordination with the government's fiscal and other policies. Meanwhile, one member noted that, in the conduct of monetary policy, 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.

Regarding <u>the Bank's communication to the public</u> with respect to monetary policy conduct, one member said that, not only do prices have a broad impact on people's lives in general, but the degree of the impact differs depending on such factors as the attributes of each economic entity or region. This member continued that, therefore, attention should also be warranted on the Bank's communication to the public regarding price developments and monetary policy conduct. A different member said that it was necessary to explain more carefully to the public that, while price rises in goods and services increase the burden on households, regardless of their cause, the important point was that wage increases be achieved so as to reduce such burden.

With respect to yield curve control, members shared the recognition that the JGB yield curve had been formed in a manner consistent with the guideline for market operations. On this basis, they discussed the Bank's responses in terms of market operations to the recent upward pressure on long-term interest rates. One member expressed the view that it was appropriate that the Bank had carried out fixed-rate purchase operations of the cheapest-to-deliver issues for consecutive days, taking account of market conditions during that period. A few members said that the recent increase in the Bank's JGB purchases was a necessary measure for implementing the guideline for market operations, and thus the Bank should continue with its purchases while taking account of market conditions. One member said that upward pressure on domestic interest rates from overseas was expected to continue. The member then noted that, in this situation, in order to implement the guideline for market operations, it was appropriate for the Bank to continue conducting fixed-rate purchase operations every business day.

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. These members continued that, in order to implement this guideline for market operations, it was appropriate that the Bank offer to purchase 10-year JGBs at 0.25 percent every business day for an unlimited amount through the fixed-rate method, unless it was highly likely that no bids would be submitted.

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 at about the same pace as prior to the COVID-19 pandemic, so that their amounts outstanding would gradually return to pre-pandemic levels, namely, about 2 trillion yen for CP and about 3 trillion yen for corporate bonds.

With respect to the future conduct of monetary policy, members shared the view that the Bank would (1) continue with Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control, aiming to achieve the price stability target 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.

Regarding its policy stance for the time being, members agreed that, while closely monitoring the impact of COVID-19, the Bank would support financing, mainly of firms, and maintain stability in financial markets, and would not hesitate to take additional easing measures if necessary. Based on this, most members shared the view that, as for policy rates, the Bank 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.

IV. Remarks by Government Representatives

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

(1) The supplementary budget for fiscal 2022 was approved by the Diet on May 31. With the comprehensive emergency measures, including the supplementary budget, the government would swiftly respond to any unforeseen fiscal demand arising, for example, from a resurgence of COVID-19 or price increases, and thereby ensure the public's sense of security.

(2) The Basic Policy on Economic and Fiscal Management and Reform 2022 (hereafter the Basic Policy 2022) was decided by the Cabinet on June 7. In formulating the budget from the summer onward, the government would steadily promote integrated economic and

fiscal reforms based on both the Basic Policy 2022 and the Basic Policy 2021. The government would thoroughly rebuild the economy and work to achieve fiscal soundness.

(3) The government expected the Bank to conduct appropriate monetary policy toward achieving the price stability target in a sustainable and stable manner while taking the impact of the situation surrounding Ukraine and COVID-19 into account and cooperating with the government.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was expected to show movements of picking up. However, full attention should be given to the downside risks posed by, for example, supply-side constraints, rising raw material prices, and fluctuations in the financial and capital markets. In this situation, the government would swiftly and steadily implement the package of economic measures compiled in November 2021 and the comprehensive emergency measures compiled this April. It would take swift and comprehensive measures tailored to the situation in terms of both prices and economic conditions, including the flexible use of reserve funds.

(2) The government would give concrete shape immediately to the comprehensive measures for advancing the Basic Policy 2022 and the vision and the action plan of a New Form of Capitalism; through these efforts, it would transform the economy and society, making them more resilient and sustainable.

(3) The government expected the Bank to continue to conduct appropriate monetary policy based on due consideration of developments in economic activity and prices as well as financial conditions, while cooperating with the government.

V. 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:

1. The guideline for market operations for the intermeeting period will be as follows.
   (1) The Bank will apply a negative interest rate of minus 0.1 percent to the Policy-Rate Balances in current accounts held by financial institutions at the Bank.
   (2) The Bank will purchase a necessary amount of JGBs without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

2. In order to implement the above guideline for market operations, the Bank will offer to purchase 10-year JGBs at 0.25 percent every business day for an unlimited amount through the fixed-rate method, unless it is highly likely that no bids will be submitted.

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 at about the same pace as prior to the COVID-19 pandemic, so that their amounts outstanding will gradually return to pre-pandemic levels, namely, about 2 trillion yen for CP and about 3 trillion yen for corporate bonds.

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).

VI. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of April 27 and 28, 2022, for release on June 22.

Attachment
June 17, 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 (an 8-1 majority vote) [Note 1]

a) The Bank decided to set the following guideline for market operations for the intermeeting period.

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

The long-term interest rate:
The Bank will purchase a necessary amount of Japanese government bonds (JGBs) without setting an upper limit so that 10-year JGB yields will remain at around zero percent.

b) Conduct of fixed-rate purchase operations for consecutive days

In order to implement the above guideline for market operations, the Bank will offer to purchase 10-year JGBs at 0.25 percent every business day through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted.

(2) Guidelines for asset purchases (a unanimous vote)

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

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

b) The Bank will purchase CP and corporate bonds at about the same pace as prior to the novel coronavirus (COVID-19) pandemic, so that their amounts outstanding will gradually return to pre-pandemic levels, namely, about 2 trillion yen for CP and about 3 trillion yen for corporate bonds.

2. Japan's economy has picked up as a trend, although some weakness has been seen in part, mainly due to the impact of COVID-19 and a rise in commodity prices. Overseas economies have recovered on the whole, albeit with some weakness seen in part. Exports and industrial production have continued to increase as a trend, but the effects of supply-side constraints have intensified lately. Business sentiment has seen a pause in its improvement recently, mainly due to the impact of supply-side constraints and the rise in commodity prices. Corporate profits have been at high levels on the whole. Business fixed investment has picked up, although weakness has been seen in some industries. The employment and income situation has remained relatively weak on the whole, although improvement has been seen in some parts. Private consumption has picked up, particularly for services consumption, with the impact of COVID-19 waning. Housing investment has been more or less flat. Public investment has been relatively weak. Financial conditions have been accommodative on the whole, although weakness in firms' financial positions has remained in some segments. On the price front, with the effects of a reduction in mobile phone charges dissipating, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has been at around 2 percent, mainly due to rises in energy and food prices. Meanwhile, inflation expectations, particularly short-term ones, have risen.

3. Japan's economy is likely to recover, with the impact of COVID-19 and supply-side constraints waning and with support from an increase in external demand, accommodative financial conditions, and the government's economic measures, although it is expected to be under downward pressure stemming from the rise in commodity prices due to factors such as the situation surrounding Ukraine. Thereafter, as the negative impact of high commodity prices wanes and a virtuous cycle from income to spending intensifies gradually, Japan's economy is projected to continue growing, albeit more slowly, at a pace above its potential growth rate. The year-on-year rate of increase in the CPI (all items less fresh food) is likely to be at around 2 percent for the time being due to the impact of rises in energy and food prices, but it is expected to decelerate thereafter because the positive contribution of the rise in energy prices to the CPI is likely to wane. Meanwhile, the year-on-year rate of change in the CPI (all items less fresh food and energy) is expected to moderately increase in positive territory on the back of improvement in the output gap and rises in medium- to long-term inflation expectations and wage inflation, and partly also of a pass-through of raw material cost increases.

4. Concerning risks to the outlook, there remain extremely high uncertainties for Japan's economy, including the course of COVID-19 at home and abroad and its impact, developments in the situation surrounding Ukraine, and developments in commodity prices and overseas economies. In this situation, it is necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices.

5. 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 CPI (all items less fresh food) exceeds 2 percent and stays above the target in a stable manner.

   For the time being, while closely monitoring the impact of COVID-19, the Bank will support financing, mainly of firms, and maintain stability in financial markets, and will not hesitate to take additional easing measures if necessary; it also 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.