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November 2, 2022

Bank of Japan

Minutes of the Monetary Policy Meeting

on September 21 and 22, 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 Wednesday, September 21, 2022, from 2:00 p.m. to 3:59 p.m., and on Thursday, September 22, from 9:00 a.m. to 11:44 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. ADACHI Seiji

Mr. NAKAMURA Toyoaki

Mr. NOGUCHI Asahi

Ms. NAKAGAWA Junko

Mr. TAKATA Hajime

Mr. TAMURA Naoki

Government Representatives Present

Mr. AKINO Kozo, State Minister of Finance, Ministry of Finance[2]

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

Mr. FUJIMARU Satoshi, 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

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1 The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 27 and 28, 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. Akino and Fujimaru were present on September 22.

3 Messrs. Oku and Inoue were present on September 21.

Mr. NAKASHIMA Motoharu, 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. KAMIJO Toshiaki, Deputy Director-General, Monetary Affairs Department[4]

Mr. OTAKE Hiroki, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

Mr. NAGAE Shinichiro, Senior Economist, Monetary Affairs Department

Mr. YOSHIMURA Haruka, Senior Economist, Monetary Affairs Department

[4] Messrs. Kamijo and Otake were present on September 22 from 10:21 a.m. to 11:44 a.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 July 20 and 21, 2022, the Bank had been conducting purchases of Japanese government bonds (JGBs).[6] 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, the Bank had carried out fixed-rate purchase operations of the cheapest-to-deliver (CTD) issues every business day. Meanwhile, it had added and changed the CTD issues applicable to fixed-rate purchase operations and to the relaxation of the terms and conditions for the Securities Lending Facility (SLF), given the rollover of JGB futures contracts. 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 conducted operations to purchase exchange-traded funds (ETFs), Japan real estate investment trusts (J-REITs), CP, and corporate bonds in accordance with the guideline for asset purchases decided at the previous meeting. 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 0.007 to minus 0.053 percent; general collateral (GC) repo rates had been in the range of around minus 0.084 to minus 0.140 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had increased somewhat.

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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.

The Tokyo Stock Price Index (TOPIX) had fluctuated in line with U.S. stock prices and was more or less unchanged from the level observed at the time of the previous meeting throughout the intermeeting period. Long-term interest rates (10-year JGB yields) had been at around 0 percent under yield curve control. In the foreign exchange market, the yen had depreciated against the U.S. dollar and the euro, while such factors as differences in the direction of monetary policy in Japan and that in the United States and Europe had drawn attention again.

C. Overseas Economic and Financial Developments

Overseas economies had recovered moderately on the whole, but slowdowns had been observed, mainly in advanced economies. Downward pressure on the global economy had increased as central banks in advanced and emerging economies had proceeded with policy rate hikes amid inflationary pressure continuing worldwide. On the other hand, positive developments had been seen, such as an uptrend in the world trade volume with supply-side constraints waning. Under such circumstances, developments in overseas economies had varied across countries and regions. As for the outlook, although the impact of COVID-19 and supply-side constraints was likely to wane, overseas economies were expected to see slowdowns with variation across countries and regions, reflecting global inflationary pressure and policy rate hikes by central banks, as well as the impact of the situation surrounding Ukraine. That said, there were high uncertainties for the time being, including over the course of the situation surrounding Ukraine and the effects of policy rate hikes by central banks.

With regard to developments in overseas economies by region, the U.S. economy had decelerated somewhat in reflection of significantly high inflation and continued policy rate hikes by the Federal Reserve. Private consumption continued to increase, particularly for services consumption, with savings accumulated to date and firm labor market conditions continuing to act as underpinning factors. However, the pace of its increase had slowed, mainly affected by significantly high inflation. Housing investment had decreased in reflection of the policy rate hikes. The labor market remained tight. Business sentiment kept improving, but its pace had slowed. Production continued to increase, albeit with some weakness seen in part, and business fixed investment continued to see a small increase. Regarding prices, 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 and demand conditions.

In European economies, slowdowns had been observed with the impact of the situation surrounding Ukraine continuing. Private consumption seemed to keep increasing, particularly for services consumption, on the back of continued resumption of economic activity; however, the consumption of goods had decelerated due to a surge in energy prices. Business sentiment had deteriorated. Production had been more or less flat and business fixed investment had shown some weakness recently. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) had been at a very high level of around 9.0 percent, mainly due to the rise in energy prices.

The Chinese economy had recovered from the state of being pushed down as the impact of lockdowns and other public health measures had waned, despite the remaining effects of the spread of COVID-19. Private consumption had recovered from a deeply depressed level while effects, such as of movement restrictions, had eased. Production had followed a recovery trend. Exports had generally recovered, reflecting the normalization of the production and logistics situations. Fixed asset investment was more or less unchanged on the whole; infrastructure investment had increased, while real estate investment had decreased.

Emerging and commodity-exporting economies other than China had picked up on the whole, albeit with some weakness seen in part. The NIEs and the ASEAN economies had generally recovered; domestic demand kept improving on the back of progress in the resumption of economic activity, although the pace of increase in exports had slowed.

With respect to overseas financial markets, long-term interest rates in advanced economies had risen significantly on the back of heightened speculation that the Federal Reserve and the European Central Bank would accelerate their pace of policy rate hikes. Stock prices were more or less unchanged in the United States and Europe, albeit with fluctuations. Crude oil prices had fallen amid heightened concern over a global economic slowdown. In the foreign exchange market, currencies in emerging economies had depreciated slightly over the intermeeting period with the U.S. dollar appreciating.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had picked up as the resumption of economic activity had progressed while public health had been protected from COVID-19, despite being affected by factors such as 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, 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.

Public investment had been more or less flat. The real public fixed capital formation in the GDP statistics had declined for five consecutive quarters, mainly due to a decrease in investment related to disaster relief construction; thereafter, that for the April-June quarter of 2022 had been more or less flat, as there had been progress, for example, in construction related to building national resilience conducted based on the government's economic measures. As for the outlook, public investment was expected to be more or less flat, with expenditure related to building national resilience continuing.

Exports and industrial production had increased as a trend, with the effects of supply-side constraints waning. Developments in real exports by goods were as follows. Although the global supply and demand conditions for semiconductors remained tight, exports of automobile-related goods had turned to an increase on the back of the impact of lockdowns, such as in Shanghai, having dissipated generally. Exports of capital goods had increased, supported by strong demand for semiconductor production equipment that reflected the medium- to long-term expansion in demand for digital-related goods, as well as by steady machinery investment on a global basis. IT-related exports had shown some weakness in semiconductors for smartphones and personal computers. With regard to the outlook, despite being affected by the slowdowns in overseas economies, exports and industrial production were likely to follow an uptrend, backed by the waning of supply-side constraints on automobile-related goods and by high levels of order backlogs, mainly for capital goods.

Corporate profits had been at high levels on the whole. Looking at the *Financial Statements Statistics of Corporations by Industry, Quarterly*, current profits for all industries and enterprises for the April-June quarter of 2022 (seasonally adjusted) had risen from the previous quarter, exceeding the pre-pandemic peak marked for the April-June quarter of 2018.

Business fixed investment had picked up, although weakness had been seen in some industries. With regard to the outlook, 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. Looking at leading indicators of such investment, machinery orders (private sector, excluding orders for ships and those from electric power companies) and construction starts (in terms of planned expenses for private and nonresidential construction) had both increased, albeit with fluctuations.

Private consumption had increased moderately, despite being affected by COVID-19. The consumption activity index (CAI; real, travel balance adjusted) had increased clearly for the April-June quarter of 2022 and thereafter had been flat for July relative to that quarter. By type, services consumption had declined slightly for July due to the impact of the resurgence of COVID-19. That said, the extent of the declines in dining-out and domestic travel had been only marginal compared with that observed during past phases when cases had surged. Nondurable goods consumption had increased, primarily for food and beverages, mainly because of temperature rises. Durable goods consumption had declined of late, partly due to fluctuations that reflected weather conditions, although the effects of supply-side constraints had waned.

Recent developments in private consumption based on anecdotal information from firms and high-frequency indicators suggested that it had returned to a moderate uptrend path from mid-August onward -- when the increasing trend in COVID-19 cases had paused -- and stayed on the path even after the start of September. Meanwhile, looking at confidence indicators related to private consumption, the consumer confidence index had risen slightly from the previous month, as factors such as improvement in the employment situation had been perceived favorably while the number of confirmed new cases had been peaking out; however, its level remained low, with attention being given to inflation. Regarding the outlook, private consumption was expected to be affected by price rises. However, on the back of improvement in the employment situation, it was projected to continue increasing because pent-up demand was likely to materialize, supported by household savings that had accumulated as a result of pandemic-related restrictions, as the resumption of consumption activities progressed while public health was being protected.

Housing investment had been relatively weak. Despite being supported by accommodative financial conditions, such investment was likely to remain relatively weak, restrained by a rise in housing prices.

The employment and income situation had improved moderately on the whole, although some weakness had been seen in part. Regarding the number of employed persons in the *Labour Force Survey*, that of non-regular employees had increased moderately but remained at a relatively low level, mainly in the face-to-face services industry. On the other hand, the number of regular employees had been on a moderate uptrend, albeit with fluctuations, 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. Total cash earnings per employee had increased moderately, reflecting the pick-up in overall economic activity. With regard to the outlook, nominal employee income was likely to keep increasing along with economic improvement. In real terms, however, the year-on-year rate of change in employee income was likely to be negative for the time being, reflecting price rises.

As for prices, international commodity prices had declined on the whole -- although those regarding some energy-related items remained high due to supply concerns -- mainly reflecting concern over a global economic slowdown. The rate of change in the producer price index (PPI) relative to three months earlier remained positive, reflecting past developments in international commodity prices and movements in foreign exchange rates. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) had been in the range of 2.5-3.0 percent due to rises in prices of such items as energy, food, and durable goods. Inflation expectations had risen. Specifically, short-term inflation expectations had increased clearly on the whole. Medium- to long-term expectations had also risen moderately. With regard to the outlook, the year-on-year rate of change in the CPI (all items less fresh food) was likely to increase toward the end of 2022 due to the rises in prices of such items as energy, food, and durable goods. Thereafter, the rate of increase was expected to decelerate because the contribution of such price rises to the CPI was likely to wane.

2. Financial environment

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

Firms' demand for funds 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 in the range of 2.0-2.5 percent and around 8 percent, respectively; their amounts outstanding remained at high levels. The number of bankruptcies of firms had been at a low level. Firms' financial positions continued on an improving trend, including for small and medium-sized firms, on the back of the pick-up in the economy, although weakness remained in some segments.

The year-on-year rate of change in the monetary base had shown a smaller increase, becoming only slightly positive, as the amount outstanding of loans provided through the Special Operations to Facilitate Financing had decreased. That in the money stock 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

With regard to global financial and capital markets, members shared the view that market sentiment remained cautious as the acceleration in the pace of policy rate hikes in the United States and Europe, as well as a slowdown in the global economy, had been drawing attention, mainly against the background of high inflation continuing globally. One member pointed out that prices of some commodities had turned to a decline against the backdrop of heightened uncertainties regarding the outlook. A different member said that the acceleration in the pace of monetary tightening abroad had affected foreign exchange markets, as well as Japan's bond and stock markets. Some members noted that it was necessary to pay attention to the impact of global monetary tightening on financial and capital markets and on asset prices. One of these members expressed the view that debt outstanding had expanded globally, and that close attention should be paid in particular to developments in credit markets.

Members concurred that overseas economies had recovered moderately on the whole, but slowdowns had been observed, mainly in advanced economies. One member pointed out that, while inflation rates such as in Europe had risen, due mainly to cost-push factors, in the United States and the United Kingdom, labor market conditions had tightened and a wage-price spiral might have started to emerge. A few members expressed the view that, amid the continued rise in inflation rates, central banks in advanced economies kept raising policy rates significantly, and this had started to push down the global economy. With regard to the outlook, members concurred that overseas economies were likely to see slowdowns with variation across countries and regions, reflecting global inflationary pressure and policy rate hikes by central banks, as well as the impact of the situation surrounding Ukraine. They shared the recognition that overseas economies entailed high uncertainties for the time being due to risks such as the following: the course of the situation surrounding Ukraine; global inflationary pressure; the effects of an acceleration in the pace of policy rate hikes by central banks in advanced and emerging economies; and the situations surrounding COVID-19 and the real estate market in China.

With regard to overseas economies by region, members shared the recognition that the U.S. economy had decelerated somewhat in reflection of significantly high inflation and continued policy rate hikes by the Federal Reserve. Some members said that, although the U.S. economy had been solid thus far, primarily in private consumption, it was necessary to bear in mind that there was a possibility of a more pronounced slowdown, depending on the pace of acceleration in policy rate hikes. One of these members pointed out that, looking at the price change distribution by item for the United States, there was a possibility that the anchor for inflation expectations had weakened. The member expressed the view that, in such case, there might be a need to conduct more decisive monetary tightening. A different member pointed out that, while the effects of policy rate hikes had already been observed in the housing-related market, it was necessary to carefully monitor such effects, since they were wide-ranging and relatively long-lasting.

Members shared the view that, in European economies, slowdowns had been observed with the impact of the situation surrounding Ukraine continuing. Some members pointed out that a deterioration in economic sentiment had been observed in these economies, mainly reflecting the rise in energy prices due to the situation surrounding Ukraine. Many members expressed the view that these economies were highly likely to see more pronounced slowdowns, as they had proceeded with monetary tightening to constrain inflation, with the effects of such factors as the situation surrounding Ukraine and concerns about energy supply pushing down the economies.

Members agreed that the Chinese economy had recovered from the state of being pushed down as the impact of lockdowns and other public health measures had waned, despite the remaining effects of the spread of COVID-19. Some members expressed the view that, although a certain level of economic stimulus measures had been implemented, the pace of recovery was likely to be only moderate, restrained by the zero-COVID policy and the adjustment pressure in the real estate market.

Members shared the recognition that emerging and commodity-exporting economies other than China had picked up on the whole, albeit with some weakness seen in part. One member noted that emerging economies continued to raise policy rates from various perspectives, including of defending their currencies in the face of the appreciation of the U.S. dollar, and thus there were uncertainties over the outlook for economic recovery.

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 shared the view that Japan's economy had picked up as the resumption of economic activity had progressed while public health had been protected from COVID-19, despite being affected by factors such as the rise in commodity prices. Many members expressed the view that, although Japan had experienced a seventh wave of COVID-19 during summer 2022, the impact on the economy had been limited, and therefore the resumption of economic activity had steadily progressed while public health had been protected from COVID-19. One member was of the view that, based on high-frequency data and anecdotal information from firms, economic activity had been solid, even in a situation where COVID-19 cases had started to increase. In addition, a different member commented that, despite headwinds such as high commodity prices, the virtuous cycle in the corporate sector had been maintained, as evidenced, for example, by exports and production having increased as a trend, with the effects of supply-side constraints waning.

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, 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 virtuous cycle from income to spending intensified gradually, the economy was projected to continue growing at a pace above its potential growth rate. A few members expressed the recognition that, in addition to the waning of supply-side constraints and the materialization of pent-up demand being expected, factors such as high levels of corporate profits and order backlogs, as well as household savings that had accumulated during the pandemic, were likely to support economic recovery. One member said that Japan's real GDP was expected to exceed the pre-pandemic level of 2019, on the back of the situation of progress with the resumption of economic activity while protecting public health being made; for example, as evidenced by the planned relaxing of entry restrictions in Japan.

Members agreed that exports and production had increased as a trend, with the effects of supply-side constraints waning.

Members concurred that corporate profits had been at high levels on the whole. One member pointed out that, although the impact of the yen's depreciation on corporate profits varied depending on industry category and firm size, such profits as a whole had exceeded the pre-pandemic peak, due in part to a waning of the impact of COVID-19.

Members shared the recognition that business fixed investment had picked up, although weakness had been seen in some industries. One member pointed out that investment for projects that had been postponed due to the impact of COVID-19 and supply-side constraints, as well as that to address medium- to long-term issues, such as restructuring of supply chains, were expected to take place. A different member added that, while corporate profits remained at high levels, firms' appetite for investment had also been solid. Meanwhile, one member noted that, although the business environment of firms in some industries -- such as eating and drinking as well as accommodations -- had been severe due to the impact of COVID-19, taking the corporate sector as a whole, efforts with a view to the post-COVID-19 era and those to create new businesses had become important.

Members agreed that private consumption had increased moderately, despite being affected by COVID-19. Many members expressed the recognition that the impact of the seventh wave of COVID-19 on private consumption seemed to have been smaller than that observed during past phases when cases had surged.

Members concurred that the employment and income situation had improved moderately on the whole, although some weakness had been seen in part. One member noted that minimum wages had been raised by record amounts, and that some firms had started to take an active stance toward wage increases. The member then said that the uptrend in wages was expected to accelerate due to increasing awareness of the importance of investment in people. On this basis, the member added that it was important to carefully monitor the sustainability of such a development and structural changes in the labor market. A different member pointed out that labor shortage had intensified in the face-to-face services industry in line with an increase in the number of customers, and as inbound tourism consumption recovered, moves to raise hourly wages, such as of part-time workers, could accelerate further. In addition, the member expressed the view that given, for example, the recent price rises, developments in corporate profits, and the state of labor shortage, higher wage increases than in the past might be one possible outcome of the annual spring labor-management wage negotiations in 2023. Meanwhile, one member noted that the promotion of stable asset formation by households was also important from the perspective of achieving a sustained rise in household income.

Meanwhile, some members noted that the yen's depreciation tends to lead to deterioration in profits of nonmanufacturing firms as well as small and medium-sized ones that relied primarily on domestic demand, although the degree of its impact could differ depending on attributes of each firm, such as whether it was an exporting or importing firm, and that such depreciation could also be a factor to push down households' real income. One of these members expressed the view that, while the yen's depreciation led to price hikes in items such as imported products and food in the short run, it also had an effect of pushing up domestic economic activity in the medium to long run. On this point, the member continued that such depreciation was different from energy price rises, which only had a negative impact of increasing costs. A few members said that the keys to augmenting the advantages of the yen's depreciation were, for example, an expansion in inbound tourism consumption, a rise in business fixed investment, an increased emphasis on domestic sites in investment for growth areas, enhancement of small and medium-sized firms' export capacity, and wage increases.

As for prices, members agreed that the year-on-year rate of change in the CPI (all items less fresh food) had been in the range of 2.5-3.0 percent due to rises in prices of such items as energy, food, and durable goods. Some members expressed the recognition that price hikes by firms had been observed in a wider range of items. One member pointed out that various indicators for capturing the underlying trend in the CPI -- namely, the trimmed mean, the weighted median, and the mode -- had risen. On this point, a different member expressed the view that the various existing measures of core inflation had been highly susceptible to import prices, making it more difficult to interpret them. The member then said that detailed analysis should be carried out on such topics as the distribution of prices of individual items, as well as on the aggregate values, and that it should be reemphasized that it was necessary to pay close attention to the fundamental price formation mechanism, especially trends in wages. Meanwhile, members concurred that inflation expectations had risen. Some members expressed the recognition that, although inflation expectations had risen, those in the medium to long term had not been anchored to the price stability target of 2 percent. One member said that Japan's inflation expectations had been stable at low levels due to past prolonged deflation; while this had been a constraint on achieving the price stability target, it had been a reason for the contained inflation rate in Japan compared with those in the United States and Europe in the current phase.

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 increase toward the end of 2022 due to the rises in prices of such items as energy, food, and durable goods; thereafter, the rate of increase was expected to decelerate because the contribution of such price rises to the CPI was likely to wane. They also shared the recognition that the underlying inflationary pressure was projected to increase on the back of improvement in the output gap and rises in medium- to long-term inflation expectations and in wage growth. One member expressed the view that, against the backdrop of past increases in raw material prices, firms had announced plans to raise prices one after another, and price increases for a wide range of items were expected to continue. A few members said that a change in firms' price-setting behavior might have started to occur. In response to this, a few other members pointed out that firms' moves to pass on cost increases to prices had spread recently, but if this was a one-off situation, inflation could instead decelerate in and after 2023. One member noted that price negotiations among firms continued to take place, and that among other risks, that of consumer prices deviating significantly upward from the baseline scenario, including the impact of foreign exchange rates, needed to be examined humbly and without any preconceptions.

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 in overseas economic activity and prices. 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. One member said that, depending on its course in Japan, COVID-19 could push down domestic consumption, and that its course in China, which continued to adopt a zero-COVID policy, also could be a factor to push down Japan's economy through both the channels of external demand and supply-side constraints. The member pointed out that, therefore, COVID-19 remained a significant risk to the economy. In addition, a different member said that a virtuous cycle had just started to operate in Japan's economy. That said, the member expressed the view that with major economies -- namely, the United States, Europe, and China -- seeing slowdowns, there was a certain degree of risk of a global recession and consequent downward pressure on external demand.

B. Financial Developments

Members agreed that <u>financial conditions in Japan</u> had been accommodative on the whole, although weakness in firms' financial positions remained in some segments. They also shared the recognition that, although the impact of COVID-19 remained in some segments of small and medium-sized firms in particular, financial positions, including of these firms, had been on an improving trend. A few members said that attention should be paid to such factors as developments in firms' bankruptcies and discontinuations of businesses as the interest-free period for effectively interest-free and unsecured loans provided during the COVID-19 pandemic came to an end and interest payments started.

III. Summary of Discussions on Monetary Policy

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

Members discussed <u>the treatment of the Special Operations to Facilitate Financing</u>, which was scheduled to expire at the end of September 2022. They shared the recognition that it was appropriate to basically complete the Special Operations to Facilitate Financing, given that (1) financial conditions in Japan had been accommodative on the whole and financial positions -- including of some segments of small and medium-sized firms in particular, which continued to be affected by COVID-19 -- had been on an improving trend, and (2) demand for the operations had declined. One member said that it was necessary to complete the operations, which were initially introduced as an emergency response, so as to avoid firms' overdependence on them and a consequent distortion in resource allocation. A different member noted that business foundations of regional financial institutions -- which were important in terms of allowing them to exercise their financial intermediation function -- had been strengthening, and thus it was appropriate to complete the Special Operations to Facilitate Financing; however, taking into account the weakness in firms' financial positions that remained in some segments, the member commented that phasing out the operations was appropriate. Another member expressed the view that, with the calendar and fiscal year-ends ahead, it was desirable for the Bank to phase out the operations with care. Meanwhile, a few members referred to the government's response to the financing of small and medium-sized firms, and said that, while applications for the effectively interest-free and unsecured loans provided by government-affiliated financial institutions would be closed at the end of September as scheduled, extension of some government measures to support financing in response to COVID-19 had been decided. Based on these discussions, members shared the recognition that, given the uncertainties over COVID-19 remaining high, even if the Bank were to complete the Special Operations to Facilitate Financing, it was desirable for this to be done by gradually scaling back the operations. In terms of the treatment of the operations in that case, a few members expressed the opinion that, of the Special Operations to Facilitate Financing, regarding the fund-provisioning against loans that financial institutions made on their own ("non-government-supported loans"), there remained a certain degree of demand, and since it was the financial institutions themselves who examined and took risks on such loans, the drawback of potentially leading to a distortion in resource allocation was relatively small. These members continued that, taking such factors into consideration, a slightly longer transitory period could be implemented on the fund-provisioning against non-government-supported loans than on that against loans that financial institutions made on the back of government support ("government-supported loans"). In addition, a few members commented that, since the scheduled end of the implementation period for the Special Operations to Facilitate Financing, which would be at the end of September, was drawing near, it was also important to ensure that there was necessary time for practical responses. One member added that, even if the Bank were to gradually scale back the operations, it could review the terms and conditions, such as the duration of loans, taking into account the decline in demand. Meanwhile, some members pointed out that, even after the completion of the Special Operations to Facilitate Financing, it was possible that a wide range of financing needs would be seen, such as demand for funds in response to the impact of COVID-19 and for working capital on the back of a rise in raw material prices. These members then expressed the view that, from the perspective of meeting such a wide range of financing needs, it would be necessary to discuss what responses could be considered. On this point, a few members expressed the opinion that introducing a special facility was not necessary; instead, it was appropriate to make use of the existing Funds-Supplying Operations against Pooled Collateral, which provided a versatile funding framework. Members shared the recognition that it was appropriate for the Bank to firmly maintain accommodative financial conditions, mainly for firms, by shifting its focus to meeting a wide range of financing needs while gradually scaling back the role of acute crisis measures, such as the Special Operations to Facilitate Financing.

In response to the members' views, the chairman requested that the staff explain what responses could be considered regarding the treatment of the Special Operations to Facilitate Financing and other related matters from October 2022 onward.

The staff provided the following explanation.

(1) Treatment of the Special Operations to Facilitate Financing could be as follows.

(a) Regarding the fund-provisioning against non-government-supported loans, mainly to small and medium-sized firms, the Bank would extend the implementation period by six months and complete the fund-provisioning at the end of March 2023. During the extended implementation period, it would provide three-month funds once a month.

(b) Regarding the fund-provisioning against government-supported loans, mainly to small and medium-sized firms, the Bank would extend the implementation period by three months and complete the fund-provisioning at the end of December 2022. During the extended implementation period, it would provide three-month funds once a month.

(2) In order to support financing, mainly of small and medium-sized firms, even after the expiration of the Special Operations to Facilitate Financing, and with a view to meeting a wider range of financing needs, including demand not only for funds in response to COVID-19, but also for working capital on the back of a rise in raw material prices, for example, the Bank would set no upper limit on the amount of fund-provisioning under

the Funds-Supplying Operations against Pooled Collateral, for which various types of collateral were accepted.

Members shared the recognition that, from October, it was appropriate for the Bank to phase out the Special Operations to Facilitate Financing and, with a view to meeting a wider range of financing needs, make use of the Funds-Supplying Operations against Pooled Collateral, as in the manner explained by the staff. One member expressed the recognition that, as the strengthening of business sustainability and restructuring of businesses became challenges for firms, it would be important for the Bank to support a wider range of firms' financing. The member then said that, although the Special Operations to Facilitate Financing would be phased out, there was no change to the Bank's stance of nimbly supporting firms' financing, depending on the situation with COVID-19, and of continuing with monetary easing.

Members also discussed <u>the Bank's basic stance on its future conduct of monetary policy</u>. They shared the recognition that Japan's economy was on its way to recovery from the pandemic and had been under downward pressure due to the outflow of income from Japan caused by high commodity prices; thus, it was appropriate for the Bank to persistently continue with its large-scale monetary easing. One member noted that the Bank should continue with monetary easing, given that (1) the output gap had been negative and (2) the unemployment rate and the active job openings-to-applicants ratio had not returned to pre-pandemic levels. Some members pointed out that, although the inflation rate was likely to exceed 2 percent for the time being, there was still a long way to go to achieve the price stability target in a sustainable and stable manner, given the outlook for prices. On this point, one member said that, since the norm that prices would not rise easily had been deeply entrenched in Japan, it was vital that it be changed for a virtuous cycle to operate in Japan's economy in which wage hikes exceeded inflation in a sustainable manner. The member expressed the view that, even in a case where the rate of inflation accelerated further in the short run, the Bank should persistently continue with monetary easing as long as inflation expectations remained at low levels and the effects of a rise in the inflation rate on wages, for example, were limited. A different member commented that, at present, it was necessary to carefully monitor whether a virtuous cycle between wages and prices would operate in Japan, and there was no need to immediately change the current monetary policy stance, although attention should be paid to the side effects. One member said that improvement in productivity brought about by reforms of economic and wage structures was necessary in order to achieve the price stability target in Japan, which had fallen into a situation of low growth, low inflation, and a low rate of wage growth; therefore, it was appropriate for the Bank to continue with monetary easing to encourage such improvement. Meanwhile, a few members noted that Japan was in a situation where labor market conditions needed to tighten in order for wages to rise in a manner consistent with the price stability target of 2 percent, and thus the economic situation in Japan differed from those in the United States and other economies, where labor market conditions had already been tight and a wage-price spiral had been of concern. One of these members expressed the recognition that, until a rise in some determinants of underlying inflation, such as services prices, and CPI inflation exceeding 2 percent in a stable manner came in sight, it was appropriate to continue with monetary easing.

Meanwhile, one member expressed the view that sharp and speculative fluctuations observed in recent foreign exchange rates were not desirable for Japan's economy. A different member commented that it had been pointed out in the market that further depreciation of the yen was partly due to differences in the direction of monetary policy between Japan and other economies. A few members said that monetary policy did not directly target foreign exchange rates, and that the aim of the Bank's monetary policy conduct was to achieve the price stability target in a sustainable and stable manner. These members then expressed the opinion that the Bank should carefully explain that it needed to continue with monetary easing, given recent economic and price developments. Moreover, one member added that, since the impact of the yen's depreciation differed among economic entities, the Bank needed to carefully explain the significance of continuing with monetary easing.

One member noted that some market participants were concerned about a decline in the functioning of the bond market, such as a decline in liquidity and an increase in volatility. The member expressed the opinion that, with a view to ensuring financial market stability, it was important for the Bank to continue to thoroughly monitor and examine market conditions and, at some point in the future when the timing was considered appropriate, to make proper communication with the markets, such as regarding exit strategies.

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. A few members expressed the view that, with nominal interest rates remaining low and stable under yield curve control, real interest rates had declined, reflecting a rise in inflation expectations. On this point, one member said that this could contribute to improving the output gap through, for example, an increase in business fixed investment. A different member pointed out that it was important to assess the effects of monetary easing by taking account of the level of real interest rates relative to the natural rate. The member then expressed the view that, although the natural rate of interest might have declined to date due to supply-side constraints and pandemic-related restrictions, there was a possibility that the rate would rise again in line with the easing of such constraints and restrictions, and this could further strengthen the effects of monetary easing. In the meantime, one member expressed the view that, while there had been upward pressure on JGB yields recently against the backdrop of the rise in U.S. interest rates, developments in JGB yields had not been linked with speculation -- as experienced in June 2022 -- on the Bank revising its policy stance soon, and that therefore the Bank's stance on monetary policy conduct had permeated the markets.

Based on the above discussions, regarding the guideline for market operations for the intermeeting period, members agreed that it was appropriate for the Bank to maintain the 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. 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.

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, they 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. Regarding these points, some members expressed the view that, although other risks, such as a slowdown in overseas economies, affected policy decisions, COVID-19 remained a significant risk, and thus there was no need to change the current wording of forward guidance. In addition, a few members said that, given that the inflation rate was highly likely to decelerate from fiscal 2023, it was desirable to maintain the easing bias of monetary policy.

IV. Remarks by Government Representatives

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

(1) The government considered that the Bank's responses discussed at this meeting, including those regarding the Special Operations to Facilitate Financing, reflected the Bank's stance of continuing to do its utmost to ensure smooth corporate financing. The government had decided to transform its support for the financing of small and medium-sized firms to be tailored to living with COVID-19, and therefore expected the Bank to also take appropriate actions in this regard.

(2) The government had started working on the formulation of the budget for fiscal 2023. It would boldly implement budget prioritization so as to (1) continue to nimbly address urgent issues of the moment and (2) respond in a full-fledged manner to important challenges that Japan faced at home and abroad. While pushing forward with expenditure reforms, it would work toward achieving both economic revitalization and fiscal soundness.

(3) The government had made use of reserve funds and taken additional measures to address soaring prices. It would proceed with deliberations to compile comprehensive economic measures during October 2022.

(4) The government expected the Bank to conduct monetary policy toward achieving the price stability target in a sustainable and stable manner while 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, a slowing down of overseas economies due to global monetary tightening and other factors was a downside risk to the Japanese economy. Also, full attention should be given to factors such as the impact of price increases on households and firms as well as supply-side constraints.
(2) The government would swiftly implement the additional measures to address rising prices, which were compiled on September 9, 2022.
(3) On this basis, the government would compile comprehensive economic measures during October in order to seamlessly respond to changes in economic developments, including soaring prices, push forward with a New Form of Capitalism, and ensure the safety and security of the public.
(4) The government expected the Bank to continue to conduct appropriate monetary policy toward achieving the price stability target in a sustainable and stable manner, based on due consideration of developments in economic activity and prices as well as financial conditions, while closely cooperating with the government. In addition, the government considered it important that the Bank would thoroughly explain to the public its intentions behind the responses, including those regarding the Special Operations to Facilitate Financing.

V. Votes

A. Vote on the Guideline for Market Operations

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

The Policy Board decided the proposal by a unanimous vote.

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

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

2. 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. ADACHI Seiji, Mr. NAKAMURA Toyoaki, Mr. NOGUCHI Asahi, Ms. NAKAGAWA Junko, Mr. TAKATA Hajime, and Mr. TAMURA Naoki.

Votes against the proposal: None.

B. Vote on the Guideline for Asset Purchases

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

The Policy Board decided the proposal by a unanimous vote.

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

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

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

2. The Bank will 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. ADACHI Seiji, Mr. NAKAMURA Toyoaki, Mr. NOGUCHI Asahi, Ms. NAKAGAWA Junko, Mr. TAKATA Hajime, and Mr. TAMURA Naoki.

Votes against the proposal: None.

C. Vote on Phasing Out the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) and Other Related Matters

To reflect the view of the members, the chairman formulated a proposal that featured the following and put it to a vote.

1. With a view to phasing out the Special Operations to Facilitate Financing and shifting to fund-provisioning that would meet a wide range of financing needs, the treatment of the operations will be as follows.
   (1) The Bank will extend the period for new application for loans disbursed against non-government-supported loans under the operations to March 31, 2023. In addition, for loans disbursed on and after October 1, 2022, it will provide three-month funds once a month.
   (2) The Bank will extend the period for new application for loans disbursed against government-supported loans under the operations to December 31, 2022. In addition, for loans disbursed on and after October 1, 2022, it will provide three-month funds once a month.
   (3) The Bank will provide funds with no upper limit on the amount under the Funds-Supplying Operations against Pooled Collateral at the Bank's Head Office and its branches.

2. With regard to (1) and (2) above, the Bank will amend the "Principal Terms and Conditions of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)."

The Policy Board decided the proposal by a unanimous vote.

D. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. The chairman formulated the Statement on Monetary Policy and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment).

VI. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of July 20 and 21, 2022, for release on September 28.

Attachment
September 22, 2022
Bank of Japan

Statement on Monetary Policy

1. Financial conditions in Japan have been accommodative on the whole. Although the impact of the novel coronavirus (COVID-19) has remained in some segments of small and medium-sized firms in particular, financial positions, including of these firms, have been on an improving trend. Given these developments, the Policy Board of the Bank of Japan, at the Monetary Policy Meeting held today, decided to phase out the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19) and shift to fund-provisioning that would meet a wide range of financing needs (a unanimous vote).

   (1) Treatment of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)

      a) Regarding the fund-provisioning against loans that financial institutions make on their own ("non-government-supported loans") in response to COVID-19, mainly to small and medium-sized firms, the Bank will extend the implementation period by six months and complete the fund-provisioning at the end of March 2023. During the extended implementation period, it will provide three-month funds once a month.

      b) Regarding the fund-provisioning against loans that financial institutions make on the back of government support ("government-supported loans") in response to COVID-19, mainly to small and medium-sized firms, the Bank will extend the implementation period by three months and complete the fund-provisioning at the end of December 2022. During the extended implementation period, it will provide three-month funds once a month.

   (2) Provision of an Unlimited Amount of Funds under the Funds-Supplying Operations against Pooled Collateral

      In order to support financing, mainly of small and medium-sized firms, even after the expiration of the above special operations, and with a view to meeting a wider range of financing needs, the Bank will set no upper limit on the amount of fund-provisioning under the Funds-Supplying Operations against Pooled Collateral, for which various types of collateral are accepted. This change will be applied from the next fund-provisioning scheduled on September 27.

2. The Bank decided to set the guidelines for market operations and asset purchases as follows.

(1) Yield curve control (a unanimous vote)

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

The short-term policy interest rate:

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

The long-term interest rate:

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

b) Conduct of 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 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.

3. Japan's economy has picked up as the resumption of economic activity has progressed while public health has been protected from COVID-19, despite being affected by factors such as a

rise in commodity prices. Overseas economies have recovered moderately on the whole, but slowdowns have been observed, mainly in advanced economies. Exports and industrial production have increased as a trend, with the effects of supply-side constraints waning. Corporate profits have been at high levels on the whole. In this situation, business fixed investment has picked up, although weakness has been seen in some industries. The employment and income situation has improved moderately on the whole, although some weakness has been seen in part. Private consumption has increased moderately, despite being affected by COVID-19. Housing investment has been relatively weak. Public investment has been more or less flat. Financial conditions have been accommodative on the whole, although weakness in firms' financial positions has remained in some segments. On the price front, the year-on-year rate of change in the consumer price index (CPI, all items less fresh food) has been in the range of 2.5-3.0 percent due to rises in prices of such items as energy, food, and durable goods. Meanwhile, inflation expectations have risen.

4. Japan's economy is likely to recover, with the impact of COVID-19 and supply-side constraints waning, although it is expected to be under downward pressure stemming from a rise in commodity prices due to factors such as the situation surrounding Ukraine. Thereafter, as a virtuous cycle from income to spending intensifies gradually, Japan's economy is projected to continue growing at a pace above its potential growth rate. The year-on-year rate of change in the CPI (all items less fresh food) is likely to increase toward the end of this year due to rises in prices of such items as energy, food, and durable goods. Thereafter, the rate of increase is expected to decelerate because the contribution of such price rises to the CPI is likely to wane. Meanwhile, the underlying inflationary pressure is projected to increase on the back of improvement in the output gap and rises in medium- to long-term inflation expectations and in wage growth.

5. 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 in overseas economic activity and prices. 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.

6. 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.