Not to be released until 8:50 a.m. Japan Standard Time on Monday, May 8, 2023.

May 8, 2023

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 9 and 10, 2023

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Thursday, March 9, 2023, from 2:00 p.m. to 4:06 p.m., and on Friday, March 10, from 9:00 a.m. to 11:23 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. OKU Tatsuo, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance

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

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

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

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on April 27 and 28, 2023, as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

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. YOSHIMURA Haruka, Senior Economist, Monetary Affairs Department

Mr. TAKEDA Norihisa, Senior Economist, Monetary Affairs Department

Mr. MARUO Yuji, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[2]

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 January 17 and 18, 2023, the Bank had been conducting purchases of Japanese government bonds (JGBs).[3] Under the guideline for conduct of yield curve control decided at that meeting, it had also conducted outright purchases of 10-year JGBs at 0.5 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. Under the Funds-Supplying Operations against Pooled Collateral, which had been enhanced at the previous meeting, the Bank had conducted fund-provisioning with a loan duration of five years through the variable-rate method. With these market operations, 10-year JGB yields had been at around 0 percent. Since the previous meeting, the JGB yield curve had declined for almost all maturities due to the effects of the enhanced Funds-Supplying Operations against Pooled Collateral pushing down short- to medium-term interest rates, and in part to purchases of super-long-term JGBs by some investors. Although the shape of the yield curve was generally smoother than a while ago, distortions nevertheless remained. The diffusion index (DI) for the degree of bond market functioning in the *Bond Market Survey* showed a further deterioration. Meanwhile, in order to ensure the use of the Securities Lending Facility (SLF) in line with its purpose and to facilitate the Bank's market operations, the Bank implemented measures such as a revision to the minimum fee rate for any or all of three on-the-run issues of 10-year JGBs for which supply and demand conditions in the repo market could be deemed excessively tightened over the long term. 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 SLF, given the rollover of JGB futures contracts.

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

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

[3] 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.

Coronavirus (COVID-19) (the Special Operations to Facilitate Financing) to support financing, mainly of firms. Furthermore, with a view to meeting a wider range of financing needs, the Bank had conducted fund-provisioning under the Funds-Supplying Operations against Pooled Collateral with a loan duration of two weeks without setting an upper limit.

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 0.036 percent; general collateral (GC) repo rates had been in the range of around minus 0.079 to minus 0.111 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had been more or less flat over the intermeeting period.

The Tokyo Stock Price Index (TOPIX) had risen substantially. 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, mainly against the background of significant rises in U.S. and European interest rates.

C. Overseas Economic and Financial Developments

The pace of recovery in overseas economies had slowed. In China, there had been moves toward normalization of economic activity since the beginning of 2023 with the spread of COVID-19 being contained swiftly. Advanced economies, however, remained under downward pressure stemming from elevated inflation and policy interest rate hikes. In the United States, while private consumption had been firm amid the employment situation continuing to be favorable, industrial production had weakened somewhat. European economies had been slowing moderately, mainly in private consumption. With regard to emerging and commodity-exporting economies other than China, domestic demand continued to improve, particularly in the ASEAN economies and India, but exports had slowed, mainly in the NIEs with continued adjustments surrounding IT-related goods. As for the outlook, overseas economies were expected to slow for the time being, albeit with variation across countries and regions, amid inflationary pressure remaining on a global basis and central banks continuing to raise policy interest rates, and also with the situation surrounding Ukraine weighing on economic activity. Overseas economies were expected to pick up moderately thereafter as inflationary pressure gradually subsided and the normalization of economic activity in China progressed. There were considerably high uncertainties regarding the outlook, such as developments in global inflationary pressure, the course of the situation surrounding Ukraine, and developments in the Chinese economy.

With regard to developments in overseas economies by region, the U.S. economy remained on a slowing trend, in reflection of price rises and continued policy interest rate hikes by the Federal Reserve, although firmness had been seen in private consumption. Despite downward pressure due to price rises remaining, private consumption had been firm, with household savings that had accumulated to date and firm labor market conditions continuing to act as underpinning factors. Housing investment had decreased in reflection of the policy interest rate hikes. Business fixed investment continued to see a small increase; however, production had been decreasing moderately, and business sentiment in the manufacturing industry had also deteriorated somewhat. Regarding prices, although the year-on-year rate of change in the personal consumption expenditure (PCE) deflator had decelerated from its peak, it maintained a high increase of around 5.5 percent, reflecting an acceleration in the rate of increase in services prices, within which housing rent has a large weight.

European economies had been slowing moderately, as these economies continued to be affected by the situation surrounding Ukraine, although concern over energy supplies had been alleviated. Private consumption had been slowing moderately, as the effects of the resumption of economic activity had peaked out and as elevated inflation and policy interest rate hikes by the European Central Bank (ECB) continued. Exports and production had been more or less flat on the whole, albeit with fluctuations. Business fixed investment had improved as a trend. As for prices, the year-on-year rate of increase in the Harmonized Index of Consumer Prices (HICP) remained at a high level, although it had decelerated from its peak against the background of a diminishing positive contribution of energy prices.

The Chinese economy had started to pick up from a state of slowdown. Private consumption had also begun to pick up, with the impact of COVID-19 waning. Exports had decreased, affected by inventory adjustments for some IT-related goods and for consumer goods in advanced economies. Fixed asset investment had been more or less flat on the whole; infrastructure investment had been firm, while real estate investment continued to decrease.

In this situation, production had begun to pick up, reflecting moves toward normalization of economic activity.

In emerging and commodity-exporting economies other than China, the pace of improvement had decelerated on the whole as exports had slowed, particularly of IT-related goods, while domestic demand continued to improve moderately. In the NIEs, the pace of improvement in domestic demand had decelerated amid the slowdown in exports, particularly of IT-related goods. The ASEAN economies had recovered on the whole as domestic demand continued to improve on the back of a decline in inflation rates, although exports had slowed.

With respect to overseas financial markets, long-term interest rates in the United States and Europe had risen significantly, mainly reflecting the stronger-than-expected economic and price indicators. As for stock prices in advanced economies, while interest rate rises had weighed on them, those in the United States had been more or less flat, and those in Europe had increased, mainly because concern over energy supplies continued to ease. Currencies in emerging economies had generally depreciated, reflecting a rise in U.S. interest rates and preference for the U.S. dollar. Crude oil prices had been more or less flat over the intermeeting period, albeit with fluctuations.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy, despite being affected by factors such as high commodity prices, had picked up as the resumption of economic activity had progressed while public health had been protected from COVID-19. 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 high commodity prices and slowdowns in overseas economies.

Despite being affected by the slower pace of recovery in overseas economies, exports and production had been more or less flat, supported by a waning of the effects of supply-side constraints. Developments in real exports by goods were as follows. Exports of automobile-related goods had decreased to a relatively large extent, mainly affected by heavy snow and some automakers reducing their export ratios, although the tightness in global supply and demand conditions for semiconductors used in automobiles had gradually eased. Exports of capital goods had been at a relatively high level on the whole, supported by high levels of order backlogs, although exports of semiconductor production equipment continued to decline after having increased. Exports of IT-related goods had been more or less flat, albeit at a level somewhat lower than a while ago, as adjustment pressure continued to be exerted on exports of electronic parts such as semiconductors for smartphones and for personal computers, while demand for automobile-related goods had been firm. Regarding the outlook, exports and production were likely to be more or less flat for the time being, supported by the waning of supply-side constraints and high levels of order backlogs for automobiles and capital goods, although they were expected to be affected by the slowdowns in overseas economies. Thereafter, exports and production were projected to increase again with a pick-up in overseas economies.

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 October-December quarter of 2022 (seasonally adjusted) had declined slightly from the previous quarter, but they remained at relatively high levels. In this situation, business fixed investment had increased moderately. The quarter-on-quarter rate of change in real business fixed investment on a GDP basis had increased markedly for two consecutive quarters through the July-September quarter of 2022. It then registered a slight decline of minus 0.5 percent for the October-December quarter, partly reflecting a decrease in investment after having increased due to large-scale projects. With regard to the outlook, as corporate profits remained at high levels on the whole, business fixed investment was expected to continue increasing, mainly on the back of accommodative financial conditions. Looking at leading indicators of such investment, machinery orders (private sector, excluding orders for ships and those from electric power companies) had increased when fluctuations were smoothed out. Construction starts (in terms of planned expenses for private and nonresidential construction) had also increased, albeit with fluctuations.

Private consumption, despite being affected by price rises, had increased moderately, with the impact of COVID-19 waning. The consumption activity index (CAI; real, travel balance adjusted) had increased moderately for the October-December quarter of 2022, partly because the government's domestic travel discount program had made a positive contribution. It had then been more or less flat for January relative to the October-December quarter. By type, consumption of durable goods had picked up, mainly due to the waning of supply-side constraints. Consumption of nondurable goods had decreased, as consumption of food, beverages, and clothes had been somewhat weak, having been affected by price rises. Services consumption had increased moderately, with the impact of COVID-19 waning.

Based on anecdotal information from firms and high-frequency indicators, private consumption, despite continuing to be affected by high prices, seemed to have remained on a moderate uptrend since February 2023, partly supported by the COVID-19 situation being contained. However, an increasing number of firms had expressed concern over the possibility that households had become more defensive in their spending. For example, some retailers had pointed out a shift in consumer demand to lower-end products and a decline in sales volume. Looking at confidence indicators related to private consumption, the consumer confidence index had improved somewhat, mainly on the back of improvement in the employment situation. However, it remained at a low level, particularly in terms of consumer perception of "overall livelihood," with attention being given to price rises. Regarding the outlook, although private consumption was expected to be affected by high prices, it was projected to continue increasing moderately, supported by household savings that had accumulated as a result of pandemic-related restrictions, as the impact of COVID-19 waned and nominal income gradually improved.

The employment and income situation had improved moderately on the whole. Regarding the number of employed persons in the *Labour Force Survey*, that of regular employees had followed a moderate uptrend from a somewhat long-term perspective, 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. The number of non-regular employees had increased moderately, mainly in the face-to-face services industry, as well as the medical, healthcare, and welfare services industry. Total cash earnings per employee had increased moderately, reflecting the pick-up in overall economic activity. Scheduled cash earnings continued to rise moderately, and special cash earnings had recently increased significantly, partly due to lump-sum payments made by some firms in response to price rises. In addition, many survey results and other sources suggested that the wage revisions at the 2023 annual spring labor-management wage negotiations were likely to substantially exceed the average level of recent years. With regard to the outlook, nominal employee income was likely to continue increasing along with economic improvement. In real terms, the year-on-year rate of decline in employee income was projected to gradually diminish, as the inflation rate declined and nominal income improved.

As for prices, commodity prices had declined on the whole, albeit with variation across items. The rate of increase in the producer price index (PPI) relative to three months earlier had slowed, reflecting developments in international commodity prices and foreign exchange rates. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) had been at around 4 percent due to rises in prices of such items as energy, food, and durable goods. Inflation expectations had risen. Specifically, short-term expectations had increased. Medium- to long-term expectations had also risen moderately. With regard to the outlook, the year-on-year rate of increase in the CPI (all items less fresh food) was expected to decelerate toward the middle of fiscal 2023 due to the effects of pushing down energy prices from the government's economic measures and to a waning of the effects of a pass-through to consumer prices of cost increases led by a rise in import prices.

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 had risen moderately as demand for working capital had increased in reflection of a pick-up in economic activity and 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, as the widening of issuance spreads had paused, although developments such as a shortening of maturities had been seen. 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 3.5 percent; 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 economic activity, although weakness remained in some segments.

The year-on-year rate of decline in the monetary base had slowed, as the Bank's JGB purchases had increased while the amount outstanding of funds provided through the Special Operations to Facilitate Financing had decreased. The change in the money stock had been positive, in the range of 2.5-3.0 percent.

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

A. Economic and Price Developments

With regard to global financial and capital markets, members shared the view that market sentiment had temporarily shown signs of improvement, mainly on the back of a deceleration in the U.S. inflation rate and the easing of concern in Europe over energy supplies. They continued that, thereafter, sentiment had become cautious again, as market participants had factored in an expectation of prolonged monetary tightening, mainly in response to stronger-than-expected economic and price indicators in the United States and Europe. One member said that rises in U.S. and European interest rates had started to affect, for example, the performance of some investors, and therefore, it was necessary to closely monitor market developments. Some members expressed the view that, if U.S. and European inflation rates remained high and central banks continued their policy interest rate hikes for a prolonged period, attention was warranted on the effects of such developments on financial markets and the financial system.

Members agreed that the pace of recovery in overseas economies had slowed. Many members expressed the recognition that, although the normalization of economic activity had progressed in China, overseas economies continued to slow, particularly advanced economies. Regarding the outlook, members agreed that overseas economies were expected to slow for the time being, albeit with variation across countries and regions, amid inflationary pressure remaining on a global basis and central banks continuing to raise policy interest rates, and also with the situation surrounding Ukraine weighing on economic activity. One member said that, while services demand seemed to have remained relatively firm on a global basis, goods demand had started to slow, mainly due to the effects of the rise in interest rates, and such a slowdown had been particularly noticeable in demand for IT-related goods.

With regard to overseas economies by region, members shared the recognition that the U.S. economy remained on a slowing trend, in reflection of price rises and continued policy interest rate hikes by the Federal Reserve, although firmness had been seen in private consumption. Many members expressed the recognition that, despite the continued policy interest rate hikes, labor market conditions remained tight, and thus it was necessary to pay close attention to future policy responses by the Federal Reserve and the effects of such responses, mainly on the real economy and financial markets. One member expressed the view that inflation due to wage increases was considered to be more persistent than cost-push inflation, and therefore curbing such inflation was not easy.

Members shared the view that European economies had been slowing moderately, as these economies continued to be affected by the situation surrounding Ukraine, although concern over energy supplies had been alleviated. A few members expressed the recognition that upward pressure on prices remained high in Europe due to price rises in final consumer goods and high wage growth. One member expressed the view that the possibility of recession being avoided had risen since the economic situation had improved, mainly due to historically mild winter weather and diversification of gas suppliers. A different member said that, since the economic effects of the situation surrounding Ukraine had already been sufficiently taken into account, additional effects on European economies would likely be limited, unless the situation surrounding Ukraine changed substantially.

Members agreed that the Chinese economy had started to pick up from a state of slowdown. A few members expressed the view that, although the economy was expected to recover for the time being, driven by the normalization of economic activity, the outlook was extremely unclear because a sluggish real estate market, for example, had pushed down economic activity. One member noted that the stagnant economy could persist due to such factors as the prolonged high unemployment rate among youth and a decrease in foreign investment to China owing to geopolitical risks.

Regarding emerging and commodity-exporting economies other than China, members shared the recognition that the pace of improvement had decelerated on the whole as exports had slowed, particularly of IT-related goods, while domestic demand continued to improve moderately. One member expressed the recognition that attention was also warranted on a possible increase in debt burden as interest rates remained high.

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

With regard to <u>economic activity</u>, members shared the view that Japan's economy, despite being affected by factors such as high commodity prices, had picked up as the resumption of economic activity had progressed while public health had been protected from COVID-19. A few members expressed the view that firms' appetite for investment had been strong and private consumption had been on a recovery trend.

As for the outlook for economic activity, members shared the view 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 high commodity prices and slowdowns in overseas economies. They also shared the view that, thereafter, as a virtuous cycle from income to spending intensified gradually, the economy was projected to continue growing at a pace above its potential. One member noted that business performance of large firms had varied due to the slowdowns in overseas economies. This member then expressed the view that Japan's economy was nevertheless expected to continue growing at a pace above its potential due to increases in services consumption and inbound tourism consumption following the resumption of economic activity and to the growing momentum toward passing on cost increases to selling prices and toward raising wages, in addition to such factors as the waning of supply-side constraints. A different member expressed the view that, despite persistent concern over the slowdowns in overseas economies, Japan's economy would likely maintain its pick-up trend in principle, with expectations for a full-fledged recovery in inbound tourism demand and for an expansion in business fixed investment due to Japanese manufacturers transferring their production sites back home.

Members agreed that exports and production had been more or less flat, supported by a waning of the effects of supply-side constraints. One member expressed the recognition that exports had been somewhat weak recently, and while this seemed to be partly attributable to the timing of the Lunar New Year holidays in China, attention needed to be paid to their developments, together with developments in overseas economies. A few members expressed their view regarding how the economic recovery in China would affect Japan's exports; they pointed out that, since a recovery driven by the services sector in China would have only a limited effect on inducing Japan's exports, what was important to the outlook for Japan's exports of capital goods was the extent to which production activity would recover in China. Moreover, one member noted that weakness in Japan's exports and production was also attributable to supply-side constraints on such items as semiconductors used in automobiles.

Members shared the recognition that business fixed investment had increased moderately with corporate profits being at high levels on the whole. One member said that, with low levels of real interest rates and high levels of corporate profits, firms' appetite for investment had been solid, particularly in manufacturing. Moreover, a different member noted that firms' outlook for the long-term domestic economic growth rate had risen according to the *Annual Survey of Corporate Behavior*, and that this warranted attention as a positive development. This member then added that, with this rise in the outlook, firms' fixed investment was likely to remain solid. One member expressed the view that investment toward decarbonization and investment to digitalize business activities would also underpin business fixed investment.

Members agreed that private consumption, despite being affected by price rises, had increased moderately, with the impact of COVID-19 waning. One member said that, although private consumption had been on a recovery trend on the whole, this was partly due to the effects of various measures to stimulate consumption and close monitoring was therefore required on the sustainability of the recovery, including the impact of price rises. Furthermore, some members expressed the recognition that attention was warranted on whether the impact of high prices would become greater than expected. One of these members expressed the view that, taking account of the fact that pent-up demand -- which had been underpinning recent consumption -- would eventually run out, achieving a virtuous cycle between improvement in corporate profits and wage increases would be the key to future developments in private consumption. Another member expressed hope for wage hikes to become widespread and lead to an improvement in consumer sentiment. One member commented that high prices were expected to continue for the time being, due to a rise in prices of commodities and raw materials. The member added that close monitoring was therefore required of their impact on consumer sentiment, as energy costs in particular account for a large share of people's living expenses.

Members concurred that the employment and income situation had improved moderately on the whole. Many members pointed out that moves to raise wages during the 2023 annual spring labor-management wage negotiations seemed to have been made not only at large firms but also to have spread to small and medium-sized firms. One member said that, on the back of a tightening of labor market conditions, there were also cases in which wage hikes by some firms had led competitors in the same industry or firms in the surrounding area to also raise wages. Furthermore, a few members expressed the view that, since positive wage-setting behavior had been observed among firms, it was increasingly likely that this would lead to relatively high wage growth, including for small and medium-sized firms. A few members were of the view that the pace of increase in labor force participation of women and seniors -- which had supported an increase in labor supply -- was projected to slow, and there was a possibility that this would lead to a tightening in labor market conditions and result in upward pressure on wages. On the other hand, some members noted that business contacts had indicated that, for small and medium-sized firms in nonmetropolitan areas, wage hikes in themselves were difficult to implement. These members then expressed the recognition that an examination was required not only of the results of the labor-management wage negotiations but also of the spread and sustainability of wage hikes thereafter. Meanwhile, one member expressed the view that the following factors were key to achieving sustained wage increases: reforms toward realizing a wage profile that was based on job type and performance to promote higher employee engagement; business portfolio realignment to enhance core businesses; increasing the value-added of labor; and a shift of labor force to areas with high productivity. The member added that, for wage growth to rise among small and medium-sized firms, an appropriate pass-through of cost increases to their selling prices and sustained enhancement of value-added in their products and services were important.

As for prices, members agreed that the year-on-year rate of change in the CPI (all items less fresh food) had been at around 4 percent due to rises in prices of such items as energy, food, and durable goods. One member said that the rate of increase in the CPI for Tokyo's 23 wards for February 2023 had decelerated steadily, as had been expected. Members concurred that inflation expectations had risen.

With regard to the outlook, members agreed that the year-on-year rate of increase in the CPI was likely to decelerate toward the middle of fiscal 2023 due to the effects of pushing down energy prices from the government's economic measures and to a waning of the effects of a pass-through to consumer prices of cost increases led by a rise in import prices. They also shared the recognition that the rate of increase was projected to accelerate again moderately on the back of improvement in the output gap, rises in medium- to long-term inflation expectations and in wage growth, and a waning of the effects of the economic measures pushing down energy prices toward the middle of fiscal 2023. A few members expressed the view that, in order for CPI inflation to accelerate again toward 2 percent, after having decelerated for a while, it would be important for services prices, which are sticky, to see a sustained rise. One member added that, for this to happen, further wage increases were essential. Some members expressed the recognition that, while the current situation was a phase of closely monitoring whether a virtuous cycle between prices and wages would be achieved, due attention was warranted on the risk of prices rising more than expected. In this regard, one member noted that attention was being paid to the fact that firms continued to pass on cost increases to selling prices, and that the pace of rise in services prices was accelerating gradually, as seen in the year-on-year rate of change in services prices excluding imputed rent rising to the range of 1.5-2.0 percent. One member said that it was possible that the significant price shocks since 2022 stemming from overseas developments would change the norm for prices. The member continued that firms' price- and wage-setting behavior might therefore remain positive even after the upward pressure of costs waned, and higher-than-expected inflation might continue. In addition, some members expressed the view that, with an expected waning of the upward pressure of costs, there was a possibility that Japan would return to a situation where prices did not increase easily, if improvement in the output gap was delayed or if the pass-through of cost increases and wage hikes did not spread enough or lacked sustainability. One member expressed the recognition that it was important to deepen the analysis of price developments through revisiting the fundamental price formation mechanism and making use of a wide range of data and information.

As for risks to economic activity and prices, members agreed that there were extremely high uncertainties for Japan's economy, including the following: developments in overseas economic activity and prices; developments in the situation surrounding Ukraine and in commodity prices; and the course of COVID-19 at home and abroad and its impact. 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 expressed the view that, while rapid progress toward normalization of economic activity in China was likely to have a positive effect on the global economy, it could also become a factor pushing up prices of such items as commodities. Some members said that, amid continued moves by firms to pass on cost increases to their selling prices, the waning of the upward pressure of costs could be delayed if, for example, a greater-than-expected rise in international commodity prices was observed.

B. Financial Developments

Members agreed that financial conditions in Japan had been accommodative on the whole, although weakness in firms' financial positions remained in some segments. In addition, they shared the recognition that firms' funding costs had been hovering at extremely low levels. Regarding these points, one member expressed the view that financial conditions remained accommodative on the whole, although there had been some opinion that corporate bonds could not be issued easily due to increased volatility in interest rates. A different member pointed out that (1) short-term interest rates, which serve as the base rate for the applied interest rates on floating-rate loans, had been stable, and (2) rises in JGB yields, which account for a considerable weight in the base rates for the applied interest rates on fixed-rate loans and issuance rates on corporate bonds, had been constrained for those in the short- to medium-term zone. With regard to corporate bond market conditions, one member commented that it was premature to make a definite assessment as issuance of corporate bonds was less active at this time of year. The member continued that, however, such conditions continued to warrant close monitoring since the effects of deterioration in the functioning of the JGB market remained, and because a shortening of maturities of corporate bonds issued and shifts to bank lending had been observed.

III. Summary of Discussions on Monetary Policy

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

With regard to the Bank's basic stance on its future conduct of monetary policy, members agreed that, given developments in economic activity and prices, it was important to continue with the current monetary easing and thereby achieve the price stability target in a sustainable and stable manner accompanied by wage increases. A few members expressed the view that the environment surrounding prices had started to change, including that positive signs toward achieving the Bank's price stability target were being observed. On this point, one member commented that there was still a long way to go before it was possible to conclude that a virtuous cycle between prices and wages that was consistent with the 2 percent price stability target had started operating. A few members expressed the view that, as the current monetary easing had had side effects, such as distortions in the yield curve, it was necessary for the Bank to examine market functioning without any preconceptions while assessing the balance between positive effects and side effects. These members continued that, nevertheless, in the current phase, the Bank should persistently continue with large-scale monetary easing. One member said that, in order for progress to be made in supply-side reforms that were necessary for sustained wage increases, and in order for the expectation of a virtuous cycle between prices and wages to turn into conviction, the Bank needed to persistently continue with monetary easing and support firms' efforts to make those reforms. A different member stated that, in view of recent price rises, there were calls for revision to the Bank's accommodative monetary policy. The member continued that, however, taking into consideration the importance of resolving the long-standing challenge of shifting the norm for prices, the risk from a hasty policy change that could lead to missing a chance of achieving the price stability target should be considered as more significant than the risk from a delay in policy change. One member said that the Bank needed to carefully consider and discuss whether to revise its monetary policy, since such revisions would affect financial markets and a wide range of economic entities. A different member expressed the view that, in the phase of an exit from the prolonged low interest rate environment, it would be necessary to carefully examine whether firms, households, and financial institutions were well prepared to deal with changes in the environment for fund management and financing.

With respect to yield curve control, members shared the recognition that long-term interest rates had been at around 0 percent, in line with the guideline for market operations, as the Bank had devised various ways of conducting market operations. Some members commented that, in the current phase, the Bank needed to examine the effects of various measures that it had implemented with the aim of improving market functioning. A few members expressed the recognition that the shape of the JGB yield curve was generally smoother than a while ago, due in part to modifications of the conduct of the Funds-Supplying Operations against Pooled Collateral and the SLF, although distortions in the yield curve remained. In addition, one member -- referring to the distortions in the yield curve, including yields on some on-the-run issues -- pointed out the significance of conducting market operations with due consideration of market functioning. The member then expressed the view that it was necessary to closely monitor market developments, including whether yields would be formed smoothly. One member expressed the view that it would still take time to examine the effects that the modification of the conduct of yield curve control had on market functioning. The member continued that, nevertheless, when the observed CPI inflation declined and market projections of interest rates in turn calmed down, distortions in the yield curve were expected to be corrected. In addition, many members shared the recognition that market functioning remained deteriorated for yields in the long-term zone and that, in the corporate bond market, although the widening of issuance spreads on corporate bonds had paused, the effects of deterioration in the functioning of the JGB market remained, and these continued to warrant close monitoring. A few members pointed out that, if there were distortions in JGB yields, which serve as the base rates for issuance rates on corporate bonds, this would cause difficulty in the prospects for yields to converge at the time of issuance and purchase of corporate bonds. In this regard, one member expressed the view that, although it was hard to say that the distortions in the yield curve had been corrected sufficiently, their effects on corporate financing were limited at present. Meanwhile, one member commented that it was necessary to monitor humbly and carefully the situation going forward -- namely, market conditions as well as developments in economic activity, prices, and wages -- and ensure the transmission of the effects of monetary easing to the real economy in a sustainable and effective manner by, if necessary, working to improve market functioning, including the functioning of the corporate bond and swap markets.

Members also commented on <u>the Bank's price stability target of 2 percent</u>. Some members said that it was crucial that the Bank firmly maintain its commitment to the price stability target of 2 percent. One of these members added that, in order to achieve the price stability target, it was important for the Bank to anchor inflation expectations to 2 percent by committing to achieving the target. Another member expressed concern that starting a discussion on the target might lead to unnecessary speculation on the conduct of monetary policy, despite the growing possibility that the price stability target would be achieved. This member added that, similarly, there was no need to revise the joint statement of the government and the Bank. One member said that it was important for Japan's economy that its economic and wage structures be reformed so that wages would increase in tandem with economic growth, and that labor market reform also be made. The member continued that, if the Bank lowered its inflation target and changed its accommodative monetary policy simply because it was taking time to achieve the target, there was a risk that necessary reforms would be delayed. In addition, one member pointed out that there was some argument that the Bank should target the wage increase rate instead of the inflation rate. The member then expressed the view that it was unreasonable to set real wages as a monetary policy target because they were determined by labor productivity growth -- which was outside the scope of monetary policy control -- in the medium to long term. In relation to this, one member raised the issue of whether high rates of wage increases and inflation were acceptable as long as both rates were positive and remained stable. In response, a few members pointed out that, generally speaking, the higher the inflation rate, the greater its fluctuations, as suggested by historical experience. These members then expressed the view that, given the purpose of price stability, which is to provide a stable foundation so that firms and people can pursue economic activity without being concerned about the fluctuations in the general price level, this did not mean that high rates of wage increases and inflation were acceptable as long as both rates remained stable.

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. In this regard, members continued that, in conducting yield curve control, it was appropriate that the Bank continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level and offer to purchase 10-year JGBs at 0.5 percent every business day for an unlimited amount through the fixed-rate method, unless it was highly likely that no bids would be submitted. They also agreed that, in order to encourage the formation of a yield curve that was consistent with the aforementioned guideline for market operations, it was appropriate that the Bank continue with large-scale JGB purchases and make nimble responses for each maturity by increasing the amount of JGB purchases and conducting fixed-rate purchase operations.

With regard to asset purchases other than JGB purchases, members shared the recognition that it was appropriate for the Bank to 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. They also shared the recognition that it was appropriate for the Bank to (1) maintain the amount outstanding of CP at about 2 trillion yen, considering that the amount outstanding would return to the pre-pandemic level, which was about 2 trillion yen; (2) purchase corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amounts outstanding would gradually return to the pre-pandemic level of about 3 trillion yen; and (3) in adjusting the amount outstanding of corporate bonds, give due consideration to their issuance conditions.

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. Meanwhile, some members pointed to the fact that, as the number of confirmed new cases of COVID-19 remained on a declining trend, the government had decided to downgrade it to a Class V infectious disease under the Infectious Disease Control Law as of May 2023. On this basis, these members expressed the recognition that, with vigilance against COVID-19 waning, even if the Bank decided to maintain the current expression of its policy stance that was related to COVID-19, it was appropriate for the Bank to consider revising it in the future. Furthermore, one member added that, uncertainty regarding prices was also an issue in describing the Bank's future policy stance.

IV. Remarks by Government Representatives

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

(1) Governor Kuroda and Deputy Governors Amamiya and Wakatabe, since taking office in 2013 and 2018, respectively, had been committed to sound economic development through the maintenance of price stability. The Ministry of Finance would like to express its sincere appreciation of their efforts during their terms of office.

(2) The budget for fiscal 2023 was aimed at paving, to some extent, the way to solving currently important issues, such as the fundamental reinforcement of defense capabilities and enhancement of child support and child care support. The government would work to obtain approval from the Diet for the budget at the earliest possible time.

(3) The government would accelerate the implementation of the comprehensive economic measures and the second supplementary budget for fiscal 2022, strengthen initiatives to

encourage wage increases, and compile new measures to alleviate the impact of rising energy and food prices, so as to swiftly respond to recent price developments.

(4) The government expected the Bank to conduct appropriate monetary policy toward achieving the price stability target in a sustainable and stable manner, based on consideration of developments in economic activity and prices as well as financial conditions, while cooperating with the government.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy had picked up moderately, although some weaknesses had been seen recently. However, a slowing down of overseas economies was a downside risk to the Japanese economy, amid ongoing global monetary tightening and other factors.

(2) The effects of the comprehensive economic measures and the second supplementary budget for fiscal 2022 had materialized, as suggested by the fact that the rate of increase in the CPI for Tokyo's 23 wards for February 2023 had decelerated by 1 percentage point from that for January.

(3) On the other hand, price hikes continued, particularly for food, due to the effects of past instances of rises in raw material prices and depreciation of the yen. The government would thus further accelerate the implementation of the comprehensive economic measures and the second supplementary budget for fiscal 2022, strengthen initiatives to encourage wage increases, and consider additional necessary measures to alleviate the impact of rising energy and food prices, so as to swiftly respond to recent price developments.

(4) The government expected the Bank 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.

(5) The Governor and the two Deputy Governors of the Bank had made strenuous efforts toward overcoming deflationary pressures and achieving sustainable economic growth since taking office in 2013 and 2018, respectively. The Cabinet Office would like to express its appreciation and gratitude for their contribution.

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. With regard to the above guideline for market operations, the Bank, in conducting yield curve control, will continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level, and will offer to purchase 10-year JGBs at 0.5 percent every business day for an unlimited amount through the fixed-rate method, unless it is highly likely that no bids will be submitted. In order to encourage the formation of a yield curve that is consistent with the above guideline for market operations, the Bank will continue with large-scale JGB purchases and make nimble responses for each maturity by increasing the amount of JGB purchases and conducting fixed-rate purchase operations.

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 maintain the amount outstanding of CP at about 2 trillion yen. It will purchase corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amount outstanding will gradually return to the pre-pandemic level of about 3 trillion yen. In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.

Votes for the proposal: 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. 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 January 17 and 18, 2023 for release on March 15.

Attachment
March 10, 2023
Bank of Japan

Statement on Monetary Policy

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

(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 yield curve control

The Bank will continue to allow 10-year JGB yields to fluctuate in the range of around plus and minus 0.5 percentage points from the target level, and will offer to purchase 10-year JGBs at 0.5 percent every business day through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted. In order to encourage the formation of a yield curve that is consistent with the above guideline for market operations, the Bank will continue with large-scale JGB purchases and make nimble responses for each maturity by increasing the amount of JGB purchases and conducting fixed-rate purchase operations.

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

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

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

b) The Bank will maintain the amount outstanding of CP at about 2 trillion yen. It will purchase corporate bonds at about the same pace as prior to the COVID-19 pandemic, so that their amount outstanding will gradually return to the pre-pandemic level of about 3 trillion yen. In adjusting the amount outstanding of corporate bonds, the Bank will give due consideration to their issuance conditions.

2. Japan's economy, despite being affected by factors such as high commodity prices, has picked up as the resumption of economic activity has progressed while public health has been protected from COVID-19. The pace of recovery in overseas economies has slowed. Although exports and industrial production have been affected by the developments in overseas economies, they have been more or less flat, supported by a waning of the effects of supply-side constraints. With corporate profits being at high levels on the whole, business fixed investment has increased moderately. The employment and income situation has improved moderately on the whole. Private consumption, despite being affected by price rises, has increased moderately, with the impact of COVID-19 waning. 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 at around 4 percent due to rises in prices of such items as energy, food, and durable goods. Meanwhile, inflation expectations have risen.

3. 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 high commodity prices and slowdowns in overseas economies. 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 increase in the CPI (all items less fresh food) is likely to decelerate toward the middle of fiscal 2023 due to the effects of pushing down energy prices from the government's economic measures and to a waning of the effects of a pass-through to consumer prices of cost increases led by a rise in import prices. Thereafter, the rate of increase is projected to accelerate again moderately on the back of improvement in the output gap, rises in medium- to long-term inflation expectations and in

wage growth, and a waning of the effects of the economic measures pushing down energy prices toward the middle of fiscal 2023.

4. Concerning risks to the outlook, there remain extremely high uncertainties for Japan's economy, including the following: developments in overseas economic activity and prices; developments in the situation surrounding Ukraine and in commodity prices; and the course of COVID-19 at home and abroad and its impact. 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.