Not to be released until 8:50 a.m. Japan Standard Time on Wednesday, September 27, 2023.

September 27, 2023

Bank of Japan

# Minutes of the Monetary Policy Meeting

## on July 27 and 28, 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, July 27, 2023, from 2:00 p.m. to 4:06 p.m., and on Friday, July 28, from 9:00 a.m. to 12:21 p.m.[1]

**Policy Board Members Present**

**UEDA Kazuo, Chairman, Governor of the Bank of Japan**
**HIMINO Ryozo, Deputy Governor of the Bank of Japan**
**UCHIDA Shinichi, Deputy Governor of the Bank of Japan**
**ADACHI Seiji**
**NAKAMURA Toyoaki**
**NOGUCHI Asahi**
**NAKAGAWA Junko**
**TAKATA Hajime**
**TAMURA Naoki**

Government Representatives Present

AKINO Kozo, State Minister of Finance, Ministry of Finance[2]
SAKAMOTO Motoru, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]
FUJIMARU Satoshi, State Minister of Cabinet Office, Cabinet Office[2]
INOUE Hiroyuki, Vice-Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

SHIMIZU Tokiko, Executive Director (Assistant Governor)
KAIZUKA Masaaki, Executive Director
KOUGUCHI Hirohide, Executive Director
SHIMIZU Seiichi, Executive Director

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1 The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on September 21 and 22, 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.

2 Present on July 28.

3 Present on July 27.

NAKAMURA Koji, Director-General, Monetary Affairs Department

NAKASHIMA Motoharu, Head of Policy Planning Division, Monetary Affairs Department

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

FUJITA Kenji, Director-General, Financial Markets Department

OTANI Akira, Director-General, Research and Statistics Department

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

KAMIYAMA Kazushige, Director-General, International Department

Secretariat of the Monetary Policy Meeting

KURAMOTO Katsuya, Director-General, Secretariat of the Policy Board

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

ANDO Masatoshi, Senior Economist, Monetary Affairs Department

MARUO Yuji, Senior Economist, Monetary Affairs Department

KITAHARA Jun, Senior Economist, Monetary Affairs Department

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

### A. Market Operations in the Intermeeting Period

In accordance with the short-term policy interest rate of minus 0.1 percent and the target level of the long-term interest rate, both of which were decided at the previous meeting on June 15 and 16, 2023, the Bank had been conducting purchases of Japanese government bonds (JGBs).[5] 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. With these market operations, 10-year JGB yields had been at around 0 percent. The shape of the JGB yield curve since the previous meeting continued to be generally smooth.

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.

### 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 0.009 to minus 0.077 percent; general collateral (GC) repo rates had been in the range of around minus 0.067 to minus 0.095 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) was more or less unchanged. Long-term interest rates (10-year JGB yields) had been at around 0 percent under yield curve control. Many of the liquidity indicators in the JGB markets generally remained in a state of deterioration compared with those seen in the first half of 2022. However, they continued to improve relative to their deterioration from the end of 2022 to around mid-March this year. In the foreign exchange market, the yen had been more or less flat against the U.S. dollar. Meanwhile, it had depreciated against the euro.

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

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

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

## C. Overseas Economic and Financial Developments

The pace of recovery in overseas economies had slowed. The U.S. economy remained on a slowing trend in reflection of continued policy interest rate hikes by the Federal Reserve, but firmness continued to be seen in private consumption, particularly for services. European economies kept slowing moderately as they continued to be affected by the situation surrounding Ukraine, although concerns over energy supply had eased compared with a while ago. The pace of pick-up in the Chinese economy had slowed, mainly owing to the effects of a slowdown in external demand and adjustments in the real estate market, although services consumption had been firm as the normalization of economic activity had progressed. In emerging and commodity-exporting economies other than China, the pace of improvement had slowed on the whole; although domestic demand continued to improve moderately in these economies, exports had slowed, particularly of IT-related goods.

As for the outlook, the pace of recovery in overseas economies was projected to remain slow for the time being, with inflationary pressure persisting on a global basis as well as the continuing impact of policy interest rate hikes by central banks. Overseas economies were expected to pick up gradually thereafter as the effects of containment of inflation through monetary tightening materialized. 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 respect to overseas financial markets, in the United States, as stronger-than-expected economic indicators and weaker-than-expected price indicators had been released alternately, long-term interest rates had risen somewhat over the intermeeting period, and stock prices had also increased. On the other hand, long-term interest rates and stock prices in Europe were generally unchanged. Meanwhile, currencies in emerging economies had depreciated overall, due primarily to the significant devaluation of some currencies. Crude oil prices had risen, mainly reflecting media reports on production cuts by some oil-producing economies.

## D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had recovered moderately. Regarding the outlook, the economy was likely to continue recovering moderately for the time being, supported by the materialization of pent-up demand, as well as by factors such as accommodative financial conditions and the government's economic measures, although it was expected to be under downward pressure stemming from the slowdown in the pace of recovery in overseas economies.

Although exports and production had been affected by the slowdown in the pace of recovery in overseas economies, they had been more or less flat, supported by a waning of the effects of supply-side constraints. Regarding the outlook, exports and production were projected to continue showing similar developments for the time being. Thereafter, they were likely to return to an uptrend with overseas economies picking up.

Corporate profits had been at high levels on the whole, and business sentiment had improved moderately. In this situation, business fixed investment had increased moderately. With regard to the outlook, as corporate profits remained at high levels on the whole, such investment was expected to continue increasing.

Private consumption had increased steadily at a moderate pace, despite being affected by price rises. The consumption activity index (CAI; real, travel balance adjusted) had been on an increasing trend until May 2023, albeit with monthly fluctuations. Based on anecdotal information from firms and high-frequency indicators, private consumption, particularly for services, seemed to have continued on a moderate uptrend since June 2023, although it had been affected by price rises and severe weather. Even amid ongoing high prices, private consumption had seen firmness thus far, as consumer sentiment followed an improving trend with a moderate pick-up in the income environment. Regarding the outlook, although such consumption was expected to be affected by price rises, it was projected to continue increasing moderately with nominal employee income continuing to improve, and partly supported by household savings that had accumulated as a result of pandemic-related restrictions.

The employment and income situation had improved moderately. Regarding the number of employed persons, that of regular employees had risen moderately, mainly in the medical, healthcare, and welfare services industry, as well as the information and communications industry, both of which had faced severe labor shortages. When fluctuations were smoothed out, the number of non-regular employees had been on a moderate uptrend, mainly in industries such as face-to-face services. Nominal wages per employee had increased moderately, reflecting the recovery in economic activity. Corporate managers' responses to the 2023 annual spring labor-management wage negotiations showed that wage increases, including regular seniority-based ones, had risen significantly from around 2 percent for 2022 to around 3.5 percent for 2023, a level last seen in 1993. With regard to the outlook, nominal employee income was likely to continue to see a clear increase in reflection of an acceleration in nominal wage growth. Partly as inflation declined, the year-on-year rate of decline in real employee income was projected to follow a decelerating trend; thereafter, the rate of change was likely to gradually turn positive.

As for prices, commodity prices had been more or less flat on the whole. With the impact of past high commodity prices gradually waning, the rate of change in the producer price index (PPI) relative to three months earlier had declined. The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) was slower than a while ago, mainly due to the effects of pushing down energy prices from the government's economic measures, but it had been in the range of 3.0-3.5 percent recently owing to the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices. Inflation expectations had shown some upward movements again. With regard to the outlook, the year-on-year rate of increase in the CPI (all items less fresh food) was expected to decelerate, with a waning of the effects of the pass-through led by the past rise in import prices.

2. Financial environment

Japan's financial conditions had been accommodative.

Firms' demand for funds had increased moderately on the back of the recovery in economic activity and past high raw material costs. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuance conditions for CP had been favorable. In the corporate bond market, issuance conditions had been favorable on the whole, as supply-demand conditions had shown some improvement. Firms' funding costs had been hovering at extremely low levels. In this situation, the year-on-year rate of increase in the amount outstanding of bank lending had been at around 3.5 percent. That in the aggregate amount outstanding of CP and corporate bonds continued to decelerate, registering around 1.5 percent. The number of bankruptcies of firms had increased recently but remained at a low level. Firms' financial positions had improved on the back of the recovery in economic activity.

Meanwhile, the year-on-year rate of decline in the monetary base had decelerated due to the waning effects of a decline in the amount outstanding of funds provided through the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19). The year-on-year rate of change in the money stock had been at around 2.5 percent.

3. Financial system

Japan's financial system maintained stability on the whole.

Profits of major banks had been firm, mainly owing to an increase in net interest income on the back of a rise in loans outstanding and to an increase in income from fees and commissions, although realized gains/losses on securities holdings had deteriorated, reflecting the rise in overseas interest rates. Meanwhile, their credit costs had been at low levels on the whole. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

Despite having been pushed down by deterioration in realized gains/losses on securities holdings that reflected the rise in overseas interest rates, profits of regional banks had increased relative to last year, supported by a decline in credit costs, as well as by improvements in pre-provision net revenue (PPNR) excluding trading income that were due mainly to a reduction in overhead costs. Profits of *shinkin* banks had decreased relative to the previous year on the back of deterioration in realized gains/losses on securities holdings. Regional and *shinkin* banks' credit costs had been at low levels. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

With regard to the financial cycle, of the 14 Financial Activity Indexes (FAIXs) that comprise the heat map in the *Financial System Report*, three -- including one indicating the amount of financial institutions' credit relative to real economic activity -- showed deviations from the trends toward overheating. This was mainly due to firms' behavior aimed at securing ample cash reserves, and therefore did not signal any overheating of financial activities. However, it was necessary to continue paying close attention to whether the amount of credit extended by financial institutions would not significantly deviate from real economic activity.

## II. Summary of Discussions by the Policy Board on Economic and Financial Developments and the July 2023 *Outlook for Economic Activity and Prices*

### A. Current Situation of Economic Activity and Prices

With regard to global financial and capital markets, members concurred that market sentiment kept improving, mainly reflecting solid economic indicators in the United States and a decline in its inflation rate, although attention continued to be drawn to uncertainties over the U.S. and European monetary policies, as well as the outlook for the global economy.

Members shared the recognition that the pace of recovery in overseas economies had slowed. One member added that the Purchasing Managers' Index (PMI) for manufacturing in the United States, Europe, and China had been below 50, partly due to geopolitical risks weighing on these economies.

Members agreed that the U.S. economy remained on a slowing trend in reflection of continued policy interest rate hikes by the Federal Reserve, but firmness continued to be seen in private consumption, particularly for services. Some members expressed the view that the economy was likely to continue to slow for the time being, although the risk of making a hard landing had become less likely, taking such factors as developments in labor market conditions and prices into account.

Members shared the recognition that European economies kept slowing moderately as they continued to be affected by the situation surrounding Ukraine, although concerns over energy supply had eased compared with a while ago. A few members expressed the view that these economies were expected to continue to slow as the European Central Bank (ECB) kept raising policy interest rates.

Members shared the view that the pace of pick-up in the Chinese economy had slowed, mainly owing to the effects of the slowdown in external demand and adjustments in the real estate market, although services consumption had been firm as the normalization of economic activity had progressed.

Regarding emerging and commodity-exporting economies other than China, members shared the recognition that the pace of improvement had slowed on the whole; although domestic demand continued to improve moderately in these economies, exports had slowed, particularly of IT-related goods. One member expressed the view that close monitoring was warranted on the Indian economy, especially since it was expected to realize growth in the future.

Members agreed that financial conditions in Japan had been accommodative. In addition, they shared the view that firms' funding costs had been hovering at extremely low levels and that the environment for external funding had been favorable on the whole.

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

With regard to economic activity, members agreed that Japan's economy had recovered moderately. One member expressed the recognition that, although the pace of recovery in overseas economies had slowed, domestic firms' and households' sentiment had been on an improving trend and business fixed investment had increased. A different member expressed the view that economic recovery had been supported by factors such as the materialization of pent-up demand as well as expansions in inbound tourism demand and business fixed investment aimed mainly at addressing geopolitical risks and labor shortages.

Members shared the recognition that, although exports and production had been affected by the slowdown in the pace of recovery in overseas economies, they had been more or less flat, supported by the waning of the effects of supply-side constraints.

Members agreed that business fixed investment had increased moderately, with corporate profits being at high levels on the whole. A few members expressed the view that the background factors to firms' solid appetite for business fixed investment were accommodative financial conditions, such as low levels of real interest rates, and high levels of corporate profits. One member was of the view that one of the causes of economic stagnation was chronic excess savings in the corporate sector that had taken hold since the late 1990s as a result of restrained investment, and noted that it was necessary to pay attention to whether this had started to be resolved.

Members concurred that private consumption had increased steadily at a moderate pace, despite being affected by price rises. One member expressed the view that the pace of recovery in such consumption as confirmed by macro data had been moderate thus far; however, consumption activities seemed to have improved, as evident in, for example, data on the number of people going out and information from the retail sector's financial reports.

Members shared the view that the employment and income situation had improved moderately. Some members expressed the view that many corporate executives had started to voice the need for wage hikes in view of recruitment and retention of employees, and that positive developments had been seen in the income environment. On this basis, a few members pointed out that some firms had promised wage hikes not only for a single fiscal year but also for the period beyond. One of these members expressed the view that such initiatives were necessary to recruit and retain employees in the current situation, and thus they were expected to further strengthen a virtuous cycle in the economy. Another member added that, as background to these moves by firms, wage growth might have started to rise in a nonlinear fashion due to intensifying labor shortages. A different member commented that the number of people who left their jobs voluntarily in pursuit of higher wages had increased, and that close monitoring was required on whether this job change trend would push up wages accompanied by a rise in the job openings-to-applicants ratios, as in the United States.

As for prices, members agreed that the year-on-year rate of increase in the CPI (all items less fresh food) was slower than a while ago, mainly due to the effects of pushing down energy prices from the government's economic measures, but it had been in the range of 3.0-3.5 percent recently owing to the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices. They shared the recognition that the recent inflation rate had been higher than the forecasts presented in the April 2023 *Outlook for Economic Activity and Prices* (hereafter the Outlook Report). As background to this, some members pointed out that past increases in raw material prices and other cost increases continued to be passed on to selling prices, mainly of goods such as food and daily necessities. On this point, one member expressed the recognition that the rise in goods prices was at around a level that could be reached by passing on past rises in import prices, and the rise in services prices was approximately equivalent to a level that could compensate for cost increases accompanying wage increases. The member continued that this situation differed greatly from the circumstances in the United States and the United Kingdom, where rises in inflation had significantly outweighed the extent of the aforementioned cost increases stemming from import price rises and wage increases. A different member said that, although the rise in goods prices had been large, increases in unit labor costs and unit profits had been limited, indicating that price rises seemed to have been led by import price rises. On the other hand, a few members pointed out that the pace of increase in services prices had been somewhat high when excluding such items as housing rent, which is highly sticky. One member noted that, in Japan, medium- to long-term inflation expectations were rising moderately. The member then expressed the view that the fact that changes in inflation expectations had not been fully taken into account might have led to underestimating the extent of the pass-through of import price rises and the degree of spillover to wage increases. One member expressed the view that the main reason inflation rates currently were deviating upward from the Bank's baseline scenario was that import price rises had affected prices for longer than expected; that said, as signs of change had been seen in firms' wage- and price-setting behavior, close monitoring was warranted on their effects on prices. Meanwhile, members concurred that inflation expectations had shown some upward movements again.

**B. Outlook for Economic Activity and Prices**

In formulating the July 2023 Outlook Report, members discussed the baseline scenario of the outlook for Japan's economic activity. They shared the recognition that Japan's economy was likely to continue recovering moderately for the time being, supported by the materialization of pent-up demand, as well as by factors such as accommodative financial conditions and the government's economic measures, although it was expected to be under downward pressure stemming from the slowdown in the pace of recovery in overseas economies; thereafter, the economy was projected to continue growing at a pace above its potential as a virtuous cycle from income to spending gradually intensified in the overall economy. One member expressed the view that price rises would peak out due to the effects of a decline in import prices, and that, with progress in wage growth following the 2023 annual spring labor-management wage negotiations, such price developments would support economic recovery. A different member expressed the recognition that increases in investments associated with the green transformation and with the restructuring of supply chains, as well as the rise in firms' productivity due to labor-saving investment and investment to facilitate digital transformation, would bring about a virtuous cycle between wages and prices. Meanwhile, one member said that, for the economy to achieve sustainable growth going forward, it was important that regional financial institutions provide follow-up support to small and medium-sized firms in order to strengthen their management resources, such as through business succession, which encouraged transformation among these firms. The member continued that, in order to stimulate growth expectations and change the deflationary mindset, it was necessary to achieve growth in nominal GDP, as well as economic and wage structures in which nominal wages increased to a greater extent than did prices.

Members agreed that, for the time being, although Japan's exports and production were projected to be affected by the slowdown in the pace of recovery in overseas economies, they were likely to be more or less flat due to factors such as the waning of the effects of supply-side constraints. In addition, they shared the view that inbound tourism demand, which is categorized under services exports, was expected to continue increasing.

Members concurred that -- as corporate profits remained at high levels on the whole, accommodative financial conditions provided support, and the effects of supply-side constraints waned -- business fixed investment was expected to continue increasing, including investment to address labor shortages, digital-related investment, research and development (R&D) investment related to growth areas and decarbonization, and investment associated with strengthening supply chains. One member expressed the view that, if adjustments in the U.S. economy were completed and overseas economies shifted toward a recovery, Japan's exports would recover, and the pace of increase in business fixed investment -- including that for projects that had been postponed -- would accelerate. A different member said that there was a long way to go to achieve inflation accompanied by wage increases. This member continued that, in order not to lose a golden opportunity to dispel the deflationary mindset, the Bank needed to gain a good grasp of the situation regarding reforms in economic and wage structures and make a careful assessment of economic activity and prices so that there would not be a waning of appetite for investment among small and medium-sized firms, whose borrowings had increased during the COVID-19 pandemic.

Members agreed that, for the time being, although private consumption was expected to be affected by price rises, it was projected to continue increasing moderately; this was because pent-up demand was likely to materialize, partly supported by household savings that had accumulated as a result of pandemic-related restrictions, and because factors such as improvement in consumer sentiment, which mainly reflected a rise in wage growth, were expected to provide support. They also shared the view that private consumption was expected to keep increasing thereafter, supported by a rise in employee income, although the pace of increase was likely to decelerate as the materialization of pent-up demand slowed and the positive contribution of the government's various measures waned.

Members concurred that, for the time being, employee income was projected to continue increasing; this was because employment was likely to rise on the back of the recovery in economic activity, and also because the rate of increase in nominal wages per employee was expected to accelerate as it gradually reflected the wage growth rate agreed in the 2023 annual spring labor-management wage negotiations, which was significantly higher than in the previous year, reflecting tightening labor market conditions and price rises. They shared the view that, thereafter, employee income was projected to continue increasing; although the pace of growth in employment was likely to moderate gradually, because it would become more difficult for labor supply to expand, wage growth was expected to increase as a trend, partly reflecting price rises, amid the tightening of labor market conditions.

Based on this discussion, members shared the recognition that, comparing the projections with those in the April 2023 Outlook Report, the projected real GDP growth rates were more or less unchanged.

Members then discussed <u>the baseline scenario of the outlook for Japan's price developments</u>. They shared the view that, although the year-on-year rate of increase in the CPI (all items less fresh food) recently was higher than projected in the April 2023 Outlook Report, it was likely to decelerate with the waning of the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices. Members continued that, thereafter, the rate of increase was projected to accelerate again moderately as the output gap improved and as medium- to long-term inflation expectations and wage growth rose, accompanied by changes in factors such as firms' wage- and price-setting behavior. Some members pointed out that the year-on-year rate of change in import prices already had been negative. One of these members, while expressing the view that the inflation rate was likely to be pushed down by the decline in import prices and thus gradually decelerate, added that prices were expected to turn around again after overseas economies picked up. A different member said that moves to rush the pass-through of cost increases to selling prices could pause in fiscal 2023, reflecting the projection that corporate profits would be at high levels due to the recent pass-through; that said, firms were expected to continue to take their time in passing on past cost increases to prices.

Members shared the recognition that, in projecting future price developments, it was important to determine whether changes in firms' wage- and price-setting behavior would progress and wage hikes would continue next year and beyond. One member -- noting that the inflation rate was likely to fall below the 2 percent level in the second half of fiscal 2023 -- expressed the view that, in order for this rate to then rise again to 2 percent and continue to stay at that level in a stable manner, it was important that a trend in which wage growth surpassed the rate agreed in the 2023 annual spring labor-management wage negotiations took hold. Some members said that firms were highly likely to continue raising wages next year and beyond in view of recruitment and retention of employees, given the tightening of labor market conditions, and that close monitoring was required regarding future developments. One of these members expressed the view that changes in firms' wage- and price-setting behavior were highly likely to be sustained because, in addition to the tightening of labor market conditions, there continued to be structural factors that would push up prices, such as a shift in emphasis within corporate behavior from an efficiency basis to a stability basis, a restructuring of supply chains, and more active efforts to address climate change. In addition, one member said that price rises had been seen mainly in goods since last year, led by the rise in import prices. This member continued that, however, triggered by the high levels of base pay increases achieved this spring, more firms had started to consider wage hikes for the next fiscal year and beyond, and thus there was likely to be a new phase where wages and services prices continued to increase. On this basis, the member expressed the view that moves toward a virtuous cycle had started to be seen among some firms, such as allocating their profits -- which had improved on the back of, for example, the pass-through of cost increases to selling prices -- for wage hikes and investment to address labor shortages. On the other hand, a different member pointed out that, according to the recent *Tankan* (Short-Term Economic Survey of Enterprises in Japan), labor shortages had been intensifying across a wide range of industries. The member then noted that there had been a polarization between those firms that sought to raise wages and prices through initiatives and investment to increase value-added and those that stuck with their strategy of low wages, low value-added, and low prices; it could not yet be said that the former type of firm had become the mainstream. Another member expressed the view that the profitability of small and medium-sized firms was weak, as evidenced by about 60 percent of them operating at a loss, and it was necessary to confirm whether wages would rise across a wider range of such firms in the future.

Meanwhile, with regard to the CPI (all items less fresh food and energy), which is not directly affected by fluctuations in energy prices, many members expressed the view that the year-on-year rate of increase was projected to be at around 3 percent for fiscal 2023 and in the range of 1.5-2.0 percent for fiscal 2024 and 2025.

Based on this discussion, members shared the recognition that, compared with the projections in the April 2023 Outlook Report, the projected rate of increase in the CPI (all items less fresh food) for fiscal 2023 was significantly higher, mainly due to the fact that cost increases led by the past rise in import prices had been passed on to consumer prices to a greater extent than expected; the projected rates for fiscal 2024 and 2025 were more or less unchanged.

Members then discussed upside and downside risks to economic activity and prices. They concurred that there were extremely high uncertainties for Japan's economic activity and prices, including developments in overseas economic activity and prices, developments in commodity prices, and domestic firms' wage- and price-setting behavior. Moreover, members shared the view that, under these circumstances, it was necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices.

On this basis, members noted the following three factors as major risks to economic activity: (1) developments in overseas economic activity and prices and in global financial and capital markets; (2) developments in the situation surrounding Ukraine and the associated developments in prices of commodities, including grains; and (3) firms' and households' medium- to long-term growth expectations.

With regard to developments in overseas economic activity and prices and in global financial and capital markets, members shared the recognition that, with inflationary pressure remaining on a global basis, overseas central banks continued to raise their policy interest rates, and attention continued to be drawn to whether it was possible to contain inflation and maintain economic growth simultaneously in global financial and capital markets. One member noted that, although it was becoming increasingly likely that economic activity in the United States and Europe would achieve a soft landing, it was necessary to closely monitor the impact of the rapid policy interest rate hikes to date on the financial system and financial market sides. A few members expressed the view that, in the United States, due to the accumulated impact of policy interest rate hikes to date, attention was warranted on whether a credit crunch would occur, mainly in the commercial real estate market, where loans were largely extended by regional banks. In addition, many members pointed out that there were high uncertainties over future developments in the Chinese economy given that the inflation rate was declining amid such problems as prolonged adjustments in the real estate market, the protracted high youth unemployment rate, and heightened geopolitical risks. One of these members expressed the opinion that the economy might have been affected by more deep-rooted structural problems, rather than simply requiring time to recover from the COVID-19 pandemic.

Regarding risks to prices, members concurred that, if the aforementioned risks to economic activity materialized, prices would be affected, and that the following factors warranted attention as risks specific to prices: (1) firms' wage- and price-setting behavior, and (2) future developments in foreign exchange rates and international commodity prices, as well as the extent to which such developments would spread to import and domestic prices. One member pointed out that, regarding the outlook for consumer prices, they could deviate upward from the baseline scenario as firms' moves to pass on cost increases to selling prices became widespread against the backdrop of wage hikes that reflected the tightening of labor market conditions. Moreover, a different member expressed the view that the recent wage hikes and pass-through of cost increases by firms had a pent-up aspect, in that these moves had been suppressed for nearly three decades; therefore, wages and selling prices could continue to rise at a pace that had not been seen in the past. The member added that close attention was warranted on the risk of Japan encountering a significant upswing in prices, as seen in the United States and Europe, albeit to a limited degree. On the other hand, one member commented that the momentum for wage hikes could be lost, considering that a large number of small and medium-sized firms had pointed out the difficulty of passing on wage hikes to selling prices. Meanwhile, one member noted that the distribution of Policy Board members' price forecasts and risk assessments suggested that future price developments were highly uncertain.

With regard to the risk balance, members agreed that risks to economic activity were skewed to the downside for fiscal 2023 but were generally balanced thereafter. They also concurred that risks to prices were skewed to the upside for fiscal 2023 and 2024.

**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 by doing so, achieve the price stability target in a sustainable and stable manner, accompanied by wage increases. Many members pointed out that, in terms of the outlook for prices, sustainable and stable achievement of the price stability target, accompanied by wage increases, had not yet come in sight, and thus the Bank needed to patiently continue with monetary easing. One of these members expressed the view that, for the moment, it was necessary that the Bank keep supporting the momentum for wage hikes through continuation of monetary easing. A different member pointed out that it should carefully nurture the long-awaited signs of change in firms' behavior by patiently continuing with monetary easing. This member then expressed the recognition that, as sustainable and stable achievement of the price stability target of 2 percent had not yet come in sight, there was still a significantly long way to go before revising the negative interest rate policy, and the framework of yield curve control needed to be maintained in line with the Bank's commitment that it had announced with regard to such framework. Moreover, one member commented that the risk of missing a chance to achieve the 2 percent target due to a hasty monetary tightening outweighed the risk of the inflation rate continuing to exceed 2 percent if monetary tightening fell behind the curve. The member continued that the Bank should wait for the underlying inflation trend to rise for now. Meanwhile, a different member noted that achievement of 2 percent inflation in a sustainable and stable manner seemed to have clearly come in sight and that, around January through March 2024, it might be possible to assess whether the Bank would achieve the target.

With respect to yield curve control, members agreed 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. A few members noted that distortions on the shape of the yield curve had dissipated and the functioning of the corporate bond market had recovered.

On this basis, some members expressed the view that, although yield curve control was being conducted smoothly at the moment, there were extremely high uncertainties for economic activity and prices, as seen in projected inflation deviating significantly upward from the Bank's baseline scenario in a short period of time. They then continued that, in this situation, if upward movements in prices continued and the Bank tried to strictly cap 10-year JGB yields, the effects of monetary easing would strengthen, while on the other hand, problems might arise; for instance, as was the case at the end of 2022, the functioning of bond markets could deteriorate and volatility could increase in other financial markets. In addition, a few members noted that there were also significant downside risks to Japan's economic activity and prices, especially with regard to the impact of overseas economies.

Taking account of these remarks, most members shared the view that, given extremely high uncertainties for prices, in order for the Bank to sustain monetary easing under the current framework of yield curve control, it was appropriate to allow at this meeting greater flexibility in the conduct of yield curve control and nimbly respond to both upside and downside risks to Japan's economic activity and prices. Some members were of the view that, if upward movements in prices continued, allowing to some extent a rise in long-term interest rates would enable the Bank to maintain the positive effects of monetary easing through the channel of real interest rates, while alleviating, for example, a decline in the functioning of bond markets. One of these members pointed out that, when inflation expectations rose in a situation where long-term interest rates were capped, the positive effects of monetary easing would increase through a decline in real interest rates, while at the same time, the side effects, such as an increase in market volatility, would strengthen. In addition, a few members noted that, if downside risks materialized, long-term interest rates would naturally decline even under the current framework, and thus monetary easing would be maintained. One of these members pointed out that the specifics of the conduct of yield curve control under the current policy framework had been determined to date by weighing the effects on the functioning of financial intermediation and the market as well as the effects of monetary easing. On this basis, this member noted that, by allowing greater flexibility in its conduct at this meeting, the Bank should make preparations so that it could successfully continue with monetary easing while nimbly responding to both upside and downside risks and taking account of factors such as market functioning. One member said that it was important to aim at keeping long-term interest rates stable at low levels in order to achieve the price stability target of 2 percent early. This member then expressed the view that, until the likelihood of achieving the target rose sufficiently, the Bank needed to maintain yield curve control while conducting it with greater flexibility. One member pointed out that, with the economic and price situation continuing to improve, some investors had held back from investing in bonds as they viewed that there were high uncertainties surrounding future interest rate developments. This member then expressed the recognition that, taking into account the current situation, it was appropriate for the Bank to conduct monetary policy that was designed to give consideration to market functioning while maintaining accommodative financial conditions. Meanwhile, a different member expressed the view that, in order to continue with monetary easing smoothly until an exit, the Bank should allow greater flexibility in its conduct of yield curve control in light of the following factors: (1) Japan's economy had been under an accommodative financial environment for a prolonged period; (2) functioning of bond markets remained deteriorated; and (3) under yield curve control, it was inherently difficult for the Bank to enable the market to factor in changes in the outlook for monetary policy in advance. On the other hand, one member noted that the current price rises were no more than import inflation, and in order to improve the momentum for wage hikes for small and medium-sized firms, where many of those employed in Japan work, it was important to enhance the earning power of these firms; therefore, it was more desirable to allow greater flexibility in the conduct of yield curve control after confirming a rise in their earning power.

Members also discussed issues to be considered when allowing greater flexibility in the conduct of yield curve control. One member expressed the view that, in order to ensure that monetary easing could be continued smoothly for as long as necessary, it was desirable that the Bank increase the flexibility of yield curve control to a certain extent in advance while it was able to do so without turmoil. In relation to this point, some members noted that the market environment was currently stable, and therefore it was an appropriate time to allow greater flexibility in the conduct of yield curve control. One member said that, as had often been pointed out, adjusting yield curve control had inherent difficulties, and thus, in conducting it with greater flexibility, it was appropriate to employ a framework that enabled flexible responses tailored to the situation. Meanwhile, some members pointed out that the Bank needed to clearly explain that allowing greater flexibility in the conduct of yield curve control discussed at this meeting was not a step toward an exit from monetary easing, and there was no change in its stance of patiently continuing with such easing.

In reaction to the members' views, the chairman requested that the staff explain possible responses regarding the conduct of yield curve control with greater flexibility, which had been pointed out by the members.

The staff provided the following explanation.

(1) Treatment of the conduct of yield curve control with greater flexibility could be as follows.

(a) The Bank would maintain the guideline for market operations, in which the short-term policy interest rate was set at minus 0.1 percent and the target level of 10-year JGB yields was around 0 percent.

(b) The Bank would 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, while it would conduct yield curve control with greater flexibility, regarding the upper and lower bounds of the range as references, not as rigid limits, in its market operations.

(c) The Bank would offer to purchase 10-year JGBs at 1.0 percent every business day through fixed-rate purchase operations, unless it was highly likely that no bids would be submitted.

Although no bids were expected to be submitted under the current interest rate environment, the Bank would offer fixed-rate purchase operations every business day for the time being.

(d) In order to encourage the formation of a yield curve that was consistent with the guideline for market operations, the Bank would continue with large-scale JGB purchases and make nimble responses for each maturity by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.

(2) Specifics of the conduct of yield curve control with greater flexibility could be as follows.

(a) Depending on market conditions, the Bank would allow long-term interest rates to move beyond the range of around plus and minus 0.5 percentage points from the target level.

(b) When long-term interest rates were at 1.0 percent, the Bank would strictly contain the rise in interest rates by conducting fixed-rate purchase operations for consecutive days.

(c) When long-term interest rates were in the range of 0.5 to 1.0 percent, the Bank would contain excessive upward pressure on the rates by making nimble responses through, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral, depending on factors such as the levels and the pace of change in the rates.

In reaction to the staff's explanation, most members shared the view that the responses presented by the staff regarding the conduct of yield curve control with greater flexibility and its specifics were appropriate. Some members expressed the view that it was appropriate to maintain the range of 10-year JGB yield fluctuations at around plus and minus 0.5 percentage points from the target level, which would contribute to clearly indicating the Bank's stance of patiently continuing with monetary easing. Meanwhile, one member pointed to the possibility that market attention would be drawn to the Bank's individual market operations in response to movements in long-term interest rates. The member then expressed the opinion that it was necessary to carefully monitor the evolving situation. A different member expressed the view that, in conducting yield curve control with greater flexibility, it was important to (1) let interest rates be determined by the market as much as possible, (2) work toward a securing of and recovery in market liquidity, but at the same time (3) prevent sharp fluctuations in interest rates. The member continued that the Bank needed to conduct operations that took these factors into account.

Based on the above discussions, regarding <u>the guideline for market operations for the intermeeting period</u>, members agreed that it was appropriate for the Bank to set 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.

Moreover, with respect to <u>the conduct of yield curve control</u>, most members concurred that it was appropriate that the Bank (1) 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, while it would conduct yield curve control with greater flexibility, regarding the upper and lower bounds of the range as references, not as rigid limits, in its market operations, and (2) offer to purchase 10-year JGBs at 1.0 percent every business day for an unlimited amount through fixed-rate purchase operations, unless it was highly likely that no bids would be submitted. These members also agreed that, in order to encourage the formation of a yield curve that was consistent with the guideline for market operations, it was appropriate that the Bank continue with large-scale JGB purchases and make nimble responses for each maturity by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.

On this point, one member, while being in favor of the idea of conducting yield curve control with greater flexibility, expressed the opinion that it was more desirable to allow greater flexibility after confirming a rise in firms' earning power from sources such as the *Financial Statements Statistics of Corporations by Industry*.

Members concurred that it was appropriate to maintain the current guideline for asset purchases other than JGB purchases.

With respect to the future conduct of monetary policy, members shared the basic stance that, with extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank would patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions, and that, by doing so, it would aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases. On this basis, they 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, 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. In addition, members agreed that the Bank would continue to maintain the stability of financing, mainly of firms, and financial markets, and would not hesitate to take additional easing measures if necessary.

## IV. Remarks by Government Representatives

Based on the above discussions, the government representatives requested that the chairman adjourn the meeting. The chairman approved the request. (The meeting adjourned at 11:39 a.m. and reconvened at 11:51 a.m.)

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

(1) The government considered that the proposals made at this meeting were aimed at enhancing the sustainability of monetary easing.

(2) The guidelines for budget requests for fiscal 2024 were approved by the Cabinet recently. In formulating the budget for fiscal 2024, the government, based on the Basic Policy on Economic and Fiscal Management and Reform 2023, would steadily promote integrated

economic and fiscal reforms and work toward achieving both economic revitalization and fiscal soundness.

(3) The government expected the Bank to conduct appropriate monetary policy toward achieving the price stability target in a sustainable and stable manner while closely cooperating with the government.

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was recovering at a moderate pace along with a full-fledged shift to a post-pandemic economy and society. However, full attention should be given to the downside risk of a slowing down of overseas economies, as well as to the effects of such factors as price increases and fluctuations in the financial and capital markets.

(2) The government considered that the proposals made at this meeting were aimed at enhancing the sustainability of monetary easing measures that were necessary for the Bank to achieve the price stability target in a sustainable and stable manner. It deemed it important for the Bank to carefully explain to the public its intention regarding the changes proposed at the meeting.

(3) The government expected the Bank to patiently continue with monetary easing toward achieving the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases, while continuing to take account of developments in economic activity and prices as well as financial conditions.

## 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:**

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 0 percent.

Votes for the proposal: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NAKAMURA Toyoaki, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki.
Votes against the proposal: None.

**B. Vote on the Conduct of Yield Curve Control**

To reflect the majority view of the members, the chairman formulated the following proposal on the conduct of yield curve control and put it to a vote.

The Policy Board decided the proposal by a majority vote.

**The Chairman's Policy Proposal on the Conduct of Yield Curve Control:**

The conduct of yield curve control for the intermeeting period will be as follows.

> 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, while it will conduct yield curve control with greater flexibility, regarding the upper and lower bounds of the range as references, not as rigid limits, in its market operations. The Bank will offer to purchase 10-year JGBs at 1.0 percent every business day for an unlimited amount 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 guideline for market operations, the Bank will continue with large-scale JGB purchases and make nimble responses for each maturity by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.

Votes for the proposal: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki.

Votes against the proposal: NAKAMURA Toyoaki.

While Nakamura Toyoaki was in favor of the idea of conducting yield curve control with greater flexibility, he dissented, considering that it was more desirable to allow greater flexibility after confirming a rise in firms' earning power from sources such as the *Financial Statements Statistics of Corporations by Industry*.

**C. 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: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NAKAMURA Toyoaki, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki.

Votes against the proposal: None.

**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. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the July 2023 Outlook Report (consisting of "The Bank's View" and "The Background"). To reflect the view of the members, the chairman formulated a proposal on "The Bank's View" and put it to a vote. The Policy Board decided the text of "The Bank's View" by a unanimous vote. It was confirmed that "The Bank's View" would be released immediately after the meeting. It also was confirmed that the full text of the Outlook Report would be made public on July 31.

## VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of June 15 and 16, 2023, for release on August 2.

## VIII. Approval of the Scheduled Dates of the Monetary Policy Meetings

The Policy Board approved unanimously the dates of the Monetary Policy Meetings to be held in 2024 and agreed to make this public after the meeting.

Attachment

July 28, 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 to conduct yield curve control with greater flexibility. The July 2023 *Outlook for Economic Activity and Prices* (Outlook Report) shows that sustainable and stable achievement of the price stability target of 2 percent, accompanied by wage increases, has not yet come in sight, and thus the Bank needs to patiently continue with monetary easing under Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control. In this context, taking account of extremely high uncertainties for economic activity and prices, it is appropriate for the Bank to enhance the sustainability of monetary easing under the current framework by conducting yield curve control with greater flexibility and nimbly responding to both upside and downside risks to Japan's economic activity and prices.

   The Bank decided on the following regarding yield curve control and the guidelines for asset purchases.

   (1) Yield curve control

   a) The Bank decided, by a unanimous vote, 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 (an 8-1 majority vote) [Note]

      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, while it will conduct yield curve control with greater flexibility, regarding the upper and lower bounds of the range as references, not as rigid limits, in its market operations. The Bank will offer to purchase 10-year JGBs at 1.0 percent every business day through fixed-rate purchase operations, unless it is highly likely that no bids will be submitted.[6] 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, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations and the Funds-Supplying Operations against Pooled Collateral.

(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. There are extremely high uncertainties for Japan's economic activity and prices, including developments in overseas economic activity and prices, developments in commodity prices, and domestic firms' wage- and price-setting behavior. Under these circumstances, 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.

   Japan's recent inflation rates, as measured by the consumer price index (CPI), are higher than projected in the April 2023 Outlook Report, and wage growth has risen, partly on the back of this year's annual spring labor-management wage negotiations. Signs of change have been seen in firms' wage- and price-setting behavior, and inflation expectations have shown some upward movements again. If upward movements in prices continue, the effects of monetary easing will

[6] Although no bids are expected to be submitted under the current interest rate environment, the Bank will offer fixed-rate purchase operations every business day for the time being.

strengthen through a decline in real interest rates, while on the other hand, strictly capping long-term interest rates could affect the functioning of bond markets and the volatility in other financial markets. Such effects are expected to be mitigated by conducting yield curve control with greater flexibility.

Meanwhile, there are also significant downside risks to Japan's economic activity and prices, including the impact of a tightening of global financial conditions on overseas economies. If such downside risks materialize, the effects of monetary easing will be maintained through a decline in long-term interest rates under the framework of yield curve control.

3. With extremely high uncertainties surrounding economies and financial markets at home and abroad, the Bank will patiently continue with monetary easing while nimbly responding to developments in economic activity and prices as well as financial conditions. By doing so, it will aim to achieve the price stability target of 2 percent in a sustainable and stable manner, accompanied by wage increases.

   The Bank will continue with QQE with Yield Curve Control, aiming to achieve the price stability target, 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. The Bank will continue to maintain the stability of financing, mainly of firms, and financial markets, and will not hesitate to take additional easing measures if necessary.

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[Note] Voting for the action: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki. Voting against the action: NAKAMURA Toyoaki. While Nakamura Toyoaki was in favor of the idea of conducting yield curve control with greater flexibility, he dissented, considering that it was more desirable to allow greater flexibility after confirming a rise in firms' earning power from sources such as the *Financial Statements Statistics of Corporations by Industry*.