Not to be released until 8:50 a.m. Japan Standard Time on Thursday, May 2, 2024.

May 2, 2024

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 18 and 19, 2024

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Monday, March 18, 2024, from 2:00 p.m. to 4:22 p.m., and on Tuesday, March 19, from 9:00 a.m. to 12:28 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

AKAZAWA Ryosei, State Minister of Finance, Ministry of Finance[2]
SAKAMOTO Motoru, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]
IBAYASHI Tatsunori, 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[4]

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on April 25 and 26, 2024, 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 March 19.
[3] Present on March 18.
[4] Present on March 18 from 3:25 p.m. to 4:22 p.m.

SHIMIZU Seiichi, Executive Director

MASAKI Kazuhiro, Director-General, Monetary Affairs Department

NAGANO Teppei, Head of Policy Planning Division, Monetary Affairs Department

IMAKUBO Kei, Deputy Director-General, Financial System and Bank Examination Department[4]

FUJITA Kenji, Director-General, Financial Markets Department

KITAMURA Tomiyuki, Head of Coordination and Market Analysis Division, Financial Markets Department[4]

OTANI Akira, Director-General, Research and Statistics Department

NAGAHATA Takashi, 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

IIJIMA Kota, Deputy Director-General, Monetary Affairs Department[5]

TSUCHIKAWA Akira, Head of Policy Infrastructure Division, Monetary Affairs Department[5]

OSADA Mitsuhiro, Senior Economist, Monetary Affairs Department

KURACHI Yoshiyuki, Senior Economist, Monetary Affairs Department

NAKAMURA Koji, Director-General, Financial System and Bank Examination Department[4]

[5] Present on March 19 from 10:15 a.m. to 12:28 p.m.

I. Summary of Staff Reports on Economic and Financial Developments[6]

A. Market Operations in the Intermeeting Period

The Bank had been conducting market operations, including purchases of Japanese government bonds (JGBs), in accordance with the guideline for market operations and the guideline for conduct of yield curve control, both of which were decided at the previous meeting on January 22 and 23, 2024.[7] With these market operations, long-term interest rates had been at levels consistent with the Bank's guideline and the shape of the JGB yield curve 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 guidelines 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 0.005 to minus 0.014 percent; general collateral (GC) repo rates had been in the range of around minus 0.059 to minus 0.104 percent. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had increased.

The Tokyo Stock Price Index (TOPIX) had risen, reflecting a rise in U.S. stock prices and solid corporate results. Long-term interest rates (10-year JGB yields) had increased slightly and had been in the range of around 0.635 to 0.785 percent. Many of the liquidity indicators in the JGB markets had seen an improvement recently. The diffusion index (DI) for the degree of bond market functioning in the *Bond Market Survey*, despite remaining negative, showed a slight improvement from the previous survey. In the foreign exchange market, the yen had been more or less flat against both the U.S. dollar and the euro.

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

[7] 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 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 had been firm, mainly led by private consumption, although it had been affected by policy interest rate hikes by the Federal Reserve. European economies kept slowing moderately as they continued to be affected by factors such as policy interest rate hikes by the European Central Bank (ECB). The Chinese economy remained on a moderate slowing trend, mainly owing to the effects of a slowdown in external demand and adjustments in the real estate market, but signs of a pick-up had been observed in some aspects, such as private consumption. Emerging and commodity-exporting economies other than China had improved moderately on the whole, as signs of a pick-up had been seen in exports.

As for the outlook, the pace of recovery in overseas economies was projected to remain slow for the time being. Thereafter, they were expected to grow moderately, albeit with variation across countries and regions. There were considerably high uncertainties regarding the outlook, such as the impact of past policy interest rate hikes by central banks, developments in the Chinese economy, and how geopolitical tensions would unfold.

With respect to overseas financial markets, in the United States and Europe, long-term interest rates had risen slightly, albeit with fluctuations. U.S. stock prices had increased, due to solid economic indicators and to growth expectations led by an expansion in demand for new technologies related to high-tech. Stock prices in Europe had also risen, in line with those in the United States. Meanwhile, currencies in emerging economies had been more or less flat on the whole. Crude oil prices had risen against the background of heightened geopolitical tensions in the Middle East.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had recovered moderately, although some weakness had been seen in part. Regarding the outlook, it was likely to continue to do so 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 had been affected by the slowdown in the pace of recovery in overseas economies, they had been more or less flat. Regarding the outlook, they were projected to continue showing similar developments for the time being. Thereafter, as overseas economies grew moderately, albeit with variation across countries and regions, they were likely to return to an uptrend.

Industrial production had been more or less flat as a trend, but it had declined recently, partly due to the effects of a suspension of production and shipment at some automakers. Meanwhile, with respect to the impact of the 2024 Noto Peninsula Earthquake on production, factors such as a severe impact on supply chains had not been observed to date, as the resumption of production had progressed. However, close attention continued to be warranted. Regarding the outlook, industrial production was likely to remain more or less flat for the time being. Thereafter, it was likely to return to an uptrend, reflecting developments in domestic and overseas demand, such as a global pick-up in IT-related goods.

Corporate profits had improved. In this situation, business fixed investment had been on a moderate increasing trend. With regard to the outlook, such investment was expected to continue on an increasing trend, mainly on the back of improvement in corporate profits and accommodative financial conditions.

Private consumption had been resilient, although the impact of price rises and developments such as a decline in automobile sales due to the suspension of shipment at some automakers had been observed. The consumption activity index (CAI; real, travel balance adjusted), after increasing for the July-September quarter of 2023, partly due to the positive effects of hot weather, had declined through January 2024. Nevertheless, when excluding the effects of temporary factors that had pushed down the CAI, such as mild winter weather and the suspension of production and shipment at some automakers, it had been resilient, particularly for services consumption, despite being affected by prices rises. Based on anecdotal information from firms and high-frequency indicators, private consumption since February 2024 seemed to have been resilient. However, an intensified thriftiness among households that reflected price rises continued to be pointed out by some firms, and the effects of the decline in automobile production had been observed. Consumer sentiment had been improving recently. Regarding the outlook, although private consumption was expected to be affected by price rises, it was projected to increase 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 been on a moderate uptrend, albeit with fluctuations, mainly in the information and communications industry, which had been facing severe labor shortages. With economic activity normalizing, the number of non-regular employees had risen moderately, mainly in the wholesale and retail trade as well as the face-to-face services industries. Nominal wages per employee had increased moderately, reflecting the recovery in economic activity and the results of the 2023 annual spring labor-management wage negotiations. Corporate managers' responses to the 2024 annual spring labor-management wage negotiations revealed to date showed that wage increases for 2024, including regular seniority-based ones, had been in the range of 5.0-5.5 percent, and the rate of increase in base pay for 2024 had been in the range of 3.5-4.0 percent, both significantly exceeding the 2023 levels. In addition, according to anecdotal information from firms -- which was gathered through the Bank's Head Office and branches -- almost all branches reported that, in areas they monitored, it was highly likely that average wage increases predicted to date would be at levels equivalent to or higher than those of the previous year. Many small-sized firms noted that, although they recognized the need to raise wages to recruit and retain employees, they intended to decide their actual wage growth rates by examining the situation surrounding wages after wage increases at large firms had been fully revealed. 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. 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. The rate of change in the producer price index (PPI) relative to three months earlier had been slightly positive recently, mainly due to the impact of the rise in crude oil prices since summer 2023. The negative contribution of energy prices to the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) had been relatively large, partly due to the government's economic measures. That said, the rate of increase in the CPI had been at around 2 percent recently, mainly on the back of the fact that, despite waning, the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices remained, and services prices had increased moderately. Inflation expectations had risen moderately. With regard to the outlook, the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be above 2 percent through fiscal 2024, due to factors such as the effects, albeit waning, of the pass-through to consumer prices of cost increases led by the past rise in import prices and a waning of the effects of the government's economic measures pushing down CPI inflation of the previous year. Thereafter, the rate of increase was projected to decelerate owing to dissipation of these factors.

2. Financial environment

Japan's financial conditions had been accommodative.

Firms' demand for funds had increased moderately on the back of, for example, the recovery in economic activity as well as mergers and acquisitions of firms. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuance conditions for CP and corporate bonds had been favorable. Firms' funding costs had been hovering at extremely low levels. In this situation, the year-on-year 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 had been at around 1.5 percent. Firms' financial positions had been favorable. The number of bankruptcies of firms had increased.

Meanwhile, the year-on-year rate of change in the monetary base had been at around 2.5 percent. That in the money stock had been at around 2.5 percent.

II. Summary of Staff Reports and Discussions by the Policy Board on the *Review of Monetary Policy from a Broad Perspective*

A. Impact of Unconventional Monetary Policy on Financial Markets

1. Staff reports

As part of the *Review of Monetary Policy from a Broad Perspective*, relevant departments were working together in conducting a research project that looked back on the positive and side effects of the Bank's unconventional monetary policy measures that had been implemented over the past 25 years.

From this research project currently underway, staff from the Financial Markets Department reported on the impact of the unconventional monetary policy on financial markets, which included the following: (1) the effects of the unconventional monetary policy on the functioning of the money market; (2) the results of analyses with respect to the side effects of quantitative and qualitative monetary easing (QQE) and yield curve control on the functioning of the JGB market; and (3) a review of foreign exchange rate developments and points to take into account in the context of the unconventional monetary policy.

In order to examine the functioning of the money market over the past 25 years, this period was divided into the following three phases, and its developments during each phase were reviewed: (1) 2001 to 2006, when quantitative easing had been implemented (Phase 1); (2) 2008 to 2016, after the Complementary Deposit Facility was introduced (Phase 2); and (3) 2016 and onward, after the introduction of the negative interest rate policy (Phase 3). During Phase 1, trading incentives between financial institutions had weakened; however, in Phase 2, the introduction of the Complementary Deposit Facility had created an incentive for financial institutions eligible to receive interest under this facility to trade with those that were not eligible. During Phase 3, financial institutions had actively undertaken arbitrage transactions under the three-tier system of the Complementary Deposit Facility, which allowed for the assessment that a sufficient level of money market functioning had been maintained.

The side effects of QQE and yield curve control on the functioning of the JGB market could be described as follows: (1) a decline in market liquidity; (2) distortions in relative prices; and (3) a weakening of trading platforms for yen-denominated bonds. Of these side effects, distortions in relative prices had been heading toward improvement. On the other hand, the decline in market liquidity was likely to continue. As for the weakening of trading platforms for yen-denominated bonds, while some market participants had voiced that it was possible to reconstruct the platforms, others had pointed out that it could take considerable time for them to recover completely. It was necessary for the Bank to continue working to gain a clear grasp of how these side effects would affect Japan's financial markets in the medium to long term.

Reviewing developments in foreign exchange rates over the past 25 years, the yen's value had been fluctuating significantly, affected by various factors that had drawn market attention at each point in time. The Bank's unconventional monetary policy measures that had been implemented during this period could have affected foreign exchange rates to a certain extent, through their effects on market expectations of future exchange rates. That said, such expectation formation appeared to have been subject to substantial change depending on developments in the global economy and global financial markets at each point in time. In this way, the effects of the unconventional monetary policy on foreign exchange rates entailed extremely high uncertainties.

The analyses of individual research conducted in this project were expected to be released in the form of research papers, such as the *Bank of Japan Working Paper Series*.

2. Discussions by the Policy Board

Based on the above staff reports, members discussed the impact of the Bank's unconventional monetary policy on financial markets.

With respect to the money market, one member noted that market functioning had deteriorated significantly during the period of quantitative easing. The member then assessed that, in the subsequent phases, the Complementary Deposit Facility had had substantial effects in conducting monetary easing while also maintaining the functioning of the money market.

Regarding the JGB market, some members expressed the recognition that, even in a case where the Bank would terminate large-scale monetary easing, it could take time for factors such as the market functioning and liquidity to recover. A few members pointed to the possibility that the volatility of long-term interest rates -- in this recovery phase of market liquidity and other factors -- would tend to heighten due to changes in, for example, the economic and price situation. One of these members added that, bearing in mind that this situation could continue for a prolonged period, it was important to carefully keep monitoring market developments. On this basis, a few members expressed the view that, in a case where the Bank would terminate the yield curve control framework, it would need to consider these points in reducing the amount of its subsequent JGB purchases. One of these members was of the view that, although the trading platforms for yen-denominated bonds were likely to be reconstructed from a somewhat long-term perspective, market participants' transaction behavior could differ from that in the past, even after the reconstruction. In addition, a different member expressed the view that it was necessary for the Bank to proceed with initiatives such as an exchange of views with market participants, including foreign investors.

As for developments in foreign exchange rates, a few members noted that the yen's value had deviated notably from purchasing power parity. These members then expressed the view that, in terms of a long-term trend, this was likely because the yen's depreciation had continued moderately, mainly against the background of Japanese manufacturers shifting their production sites to overseas, after appreciating through the mid-1990s, reflecting their high productivity. On this basis, one of these members expressed the view that, while the yen had depreciated considerably for about the past two years relative to purchasing power parity, this could reflect the fact that market participants had tended to factor in interest rate differentials between Japan and other economies more than before the Global Financial Crisis (GFC). A different member pointed out that the current levels of foreign exchange rates and stock prices differed significantly from those in around 2012, which was before the large-scale monetary easing; therefore, the transmission mechanism of monetary policy, as well as its positive ripple effects and side effects, could also differ accordingly under the present circumstances.

Based on these discussions, members shared the recognition that it was appropriate to continue to discuss the impact of the Bank's unconventional monetary policy on financial markets, while taking into account the staff's additional analyses and examinations.

B. A Look Back at Financial Intermediation over the Past 25 Years

1. Staff reports

From the research project currently underway, staff from the Financial System and Bank Examination Department reported on the following as part of a look back at financial intermediation over the past 25 years: (1) assessment of whether the financial intermediation function had led to a buildup of financial imbalances that could bring about significant adjustments to economic activity; (2) issues to be considered regarding the positive and side effects of the large-scale monetary easing measures on the financial system; and (3) the impact of low interest rate lending on firms' financial conditions.

Amid the low interest rate environment, no major accumulation of financial imbalances, such as those seen before and after the bubble period in the late 1980s, had been observed in the financial gap, which shows the financial cycle. The contraction phase in the financial cycle observed after the bursting of the bubble economy had ended by the mid-2000s. Meanwhile, with regard to financial intermediation, corporate loans saw a decline toward the first half of the 2000s, mainly due to balance-sheet adjustments and the disposal of non-performing loans. Thereafter, however, the balance between corporate credit and the level of economic activity had been more or less stable.

The amount of loans outstanding continued to increase over most of the period of the past 25 years, in which financial institutions' lending attitudes had been accommodative. A counterfactual analysis suggested that, in addition to the effects of low interest rates and of improvement in economic activity, the effects of improvement in the value of collateral against the background of stable land prices had also contributed to the increase in lending over the past 10 years. Furthermore, the intensified competition among financial institutions in loan markets was likely to have led to shrinking lending margins and an increase in loans.

It should be noted that, in the real estate-related sector, which is highly sensitive to interest rates, the amount of loans outstanding was near its historical peak. With regard to the increase in loans, there were cases where the borrowers' resilience to a decline in income or a rise in lending rates was relatively low. In addition, as borrowing terms for firms and households had become longer, interest rate risks had been rising. While long-term floating-rate borrowings were a source of interest rate risks for households, long-term fixed-rate loans to firms were a factor behind a rise in banks' interest rate risks.

As for financial institutions' profitability, although it had turned to an increase recently, it had been at a low level from a historical perspective. As a result, stress resilience among some financial institutions, mainly regional ones, had declined. In addition, in a case where interest rates rose significantly in a short period of time, valuation losses on securities holdings could restrict the financial intermediation activities of financial institutions.

Among the firms that had increased their borrowings, while some had seen improvement in their profitability and had increased their financial robustness, there had also always been a certain share of firms that continued to be faced with low profitability.

With regard to the analyses of individual research conducted in this project, these were expected to be released in the form of the *Financial System Report Annex Series* and the *Bank of Japan Working Paper Series*. Related discussions would also be covered in the *Financial System Report* scheduled to be released this April.

2. Discussions by the Policy Board

Based on the above staff reports, members discussed the impact the Bank's unconventional monetary policy had on financial institutions' behavior and the financial system.

With regard to the impact the low interest rate environment brought about by large-scale monetary easing measures had on the financial system, one member pointed out that it had promoted longer-term investment, an expansion in foreign loans and investment in foreign bonds, as well as active risk-taking by financial institutions. Furthermore, this member expressed the view that financial institutions' risk-taking behavior under the low interest rate environment had acted to push up asset prices, such as real estate prices, on a global basis. One member noted that, as a result of the large-scale monetary easing measures, financial institutions' profitability had been declining, and stress resilience at some institutions had declined, due in part to the changes in their behavior. In addition, one member expressed the recognition that, with an expansion in foreign loans and investments, the U.S. dollar funding risk faced by Japan's financial system had risen. With regard to the outlook, one member noted that attention needed to be paid to the decline in stress resilience at some financial institutions during a phase of rising interest rates, and that it was important to continue monitoring the situation carefully. A different member also commented that close attention was warranted on how portfolio rebalancing at financial institutions would progress in a case where large-scale monetary easing measures were terminated. Furthermore, a few members noted that, even if changes were made to monetary policy, it was possible that financial institutions' profits would continue to be under structural downward pressure amid a highly competitive environment.

Meanwhile, a few members noted that, with regard to the quantitative easing implemented from 2001 through 2006, there were many analyses showing that an expansion of the Bank's balance sheet only had limited effects on long-term interest rates and the real economy, since such supply of funds had been mainly short-term. However, these members continued that large-scale liquidity provision had been significantly effective in eliminating financial institutions' concerns over liquidity, thereby ensuring the stability of the financial system. One member added that there was a possibility that such effects had not been sufficiently captured in the counterfactual analysis. A different member expressed the view that the swift responses taken by the Bank in the period following the GFC had also been highly effective, as firms' funding environment had been extremely severe.

With regard to the background to the differences observed among firms that had increased borrowings, such as in their profitability, one member noted that, for large firms, structural reforms undertaken after the GFC had resulted in an expansion of investment for growth areas accompanied by an increase in borrowings. On the other hand, a different member pointed out that, with the low interest rate environment due to large-scale monetary easing measures, in addition to the government's support measures, firms with low profitability had been able to continue their businesses while increasing borrowings.

Based on these discussions, members shared the recognition that it was appropriate to continue to discuss the impact the unconventional monetary policy had on financial institutions' behavior and the financial system, while taking into account the staff's additional analyses and examinations.

III. 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 concurred that, although attention continued to be drawn to uncertainties over the outlook for the global economy, market sentiment had improved, mainly reflecting solid economic indicators in the United States and a rise in stock prices in many economies.

Members shared the recognition that the pace of recovery in overseas economies had slowed. One member expressed the view that these economies were projected to return to a moderate growth path as global inflationary pressure continued to wane.

Members agreed that the U.S. economy had been firm, mainly led by private consumption, although it had been affected by policy interest rate hikes by the Federal Reserve. Many members pointed out that the inflation rate had followed a declining trend while private consumption had been solid, and that expectations for a soft landing had heightened further. However, some of these members added that financial risks continued to warrant attention, as developments such as an increase in credit costs of commercial real estate loans and a rise in credit card delinquency rates had been observed.

Members shared the recognition that European economies kept slowing moderately as they continued to be affected by factors such as policy interest rate hikes by the ECB. One member pointed out that, as downside risks to the outlook for these economies, attention needed to be paid to postponement of business fixed investment reflecting heightened geopolitical risks, and the effects of monetary tightening through such factors as a deterioration in the commercial real estate market.

Members shared the view that the Chinese economy remained on a moderate slowing trend, mainly owing to the effects of the slowdown in external demand and adjustments in the real estate market, but signs of a pick-up had been observed in some aspects, such as private consumption. Many members noted that there were high uncertainties regarding the government's responses to various structural problems, particularly concerning the real estate market.

Regarding emerging and commodity-exporting economies other than China, members shared the recognition that these economies had improved moderately on the whole, as signs of a pick-up had been seen in exports.

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 agreed that Japan's economy had recovered moderately, although some weakness had been seen in part. A few members expressed the view that, although some weakness had been seen in private consumption and production, it was largely attributable to temporary factors. On this basis, some members pointed out that an improving trend in economic activity had been maintained, mainly due to firms' active expenditure stance on the back of high levels of corporate profits. Meanwhile, one member noted that, with respect to the impact of the Noto Peninsula Earthquake, although production had been resuming and supply-chain disruptions had not been observed, it was necessary to continue paying close attention to the impact on the local economy.

As for <u>the outlook for economic activity</u>, members shared the recognition that Japan's economy was likely to continue recovering moderately for the time being, supported by factors such as the materialization of pent-up demand, although it was expected to be under downward pressure stemming from the slowdown in the pace of recovery in overseas economies. They continued that, thereafter, as a virtuous cycle from income to spending gradually intensified, Japan's economy was projected to continue growing at a pace above its potential. One member expressed the view that expectations for the outlook for Japan's economy had increased, reflecting the fact that the wage growth agreed in the 2024 annual spring labor-management wage negotiations to date had been higher than expected and stock prices had risen recently. The member continued that the economy therefore was possibly reaching a historic inflection point.

Members shared the recognition that, although exports had been affected by the slowdown in the pace of recovery in overseas economies, they had been more or less flat.

Members shared the recognition that industrial production had been more or less flat as a trend, but it had declined recently, partly due to the effects of the suspension of production and shipment at some automakers.

Members agreed that business fixed investment had been on a moderate increasing trend with corporate profits improving. One member expressed the view that, partly due to the effects of supply-side constraints stemming from such factors as labor shortages, actual data for business fixed investment had been sluggish relative to plans. The member continued, however, that such investment was likely to continue on an increasing trend on the back of firm investment demand, mainly for investment to address labor shortages, digital-related investment, and investment to address environmental issues. A few members pointed out that, with moderate price rises continuing, it was possible that firms would accelerate their forward-looking activities, mainly reflecting improvement in their balance sheets thus far.

Members concurred that private consumption had been resilient, although the impact of price rises and developments such as the decline in automobile sales due to the suspension of shipment at some automakers had been observed. Many members expressed the view that, with the waning of the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices, private consumption had been underpinned by expectations of further improvement in nominal wages and of the effects of the government's economic measures. One of these members pointed out that, in this situation, confidence indicators related to private consumption had suggested an improving trend. One member expressed the view that, in light of the increased likelihood of wage hikes being achieved, the risk of private consumption stalling was not high. A different member pointed out that the recent rise in stock prices could push up private consumption to a certain extent through wealth effects. Meanwhile, one member noted the following as issues associated with consumption from a somewhat long-term perspective: (1) occurrence of irreversible changes in the consumption behavior of individuals following the COVID-19 pandemic, and (2) the impact of the trend of having side jobs and of the expansion of second-hand e-commerce markets.

Members shared the view that the employment and income situation had improved moderately.

As for prices, members agreed that the negative contribution of energy prices to the year-on-year rate of increase in the CPI (all items less fresh food) had been relatively large, partly due to the government's economic measures. That said, they continued that the rate of increase in the CPI had been at around 2 percent recently, mainly on the back of the fact that, despite waning, the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices remained, and services prices had increased moderately. Meanwhile, members agreed that inflation expectations had risen moderately. One member expressed the view that, with the inflation rate likely to remain at around 2 percent, inflation expectations were projected to continue rising moderately through the adaptive expectation formation mechanism.

With regard to the outlook for prices, members agreed that the year-on-year rate of increase in the CPI was likely to be above 2 percent through fiscal 2024, due to factors such as the effects, albeit waning, of the pass-through to consumer prices of cost increases led by the past rise in import prices and the waning of the effects of the government's economic measures pushing down CPI inflation of the previous year. They continued that, thereafter, the rate of increase was projected to decelerate owing to dissipation of these factors. In addition, members shared the view that underlying CPI inflation was likely to increase gradually toward achieving the price stability target, as the output gap turned positive and as medium- to long-term inflation expectations and wage growth rose. A few members expressed the view that, given that import prices had recently shifted from declining to being flat on a year-on-year basis, the pace of dissipation of inflationary pressure resulting from cost-push factors would likely moderate gradually.

From the perspective of confirming whether the virtuous cycle between wages and prices had become more solid, members examined wage and price developments. In terms of wages, most members shared the view that the possibility had heightened that wages -- including base pay -- would continue to increase steadily as a result of the 2024 annual spring labor-management wage negotiations, following the firm wage increase last year. Members concurred that the first provisional aggregate results for the wage growth rate agreed in the 2024 wage negotiations compiled by the Japanese Trade Union Confederation (Rengo) had revealed a high figure that clearly exceeded the rate for 2023. One member pointed out that this figure was at a high level even when assuming an inflation rate of around 2 percent and labor productivity growth of approximately 1 percent. The member continued that, while the figure was inadequate to offset the past decline in real wages, it suggested sustainability of the transmission mechanism from price increases to wages. A different member expressed the view that, in a situation where business managers had been keenly aware of increasing societal requests for wage increases, the government, labor, and management had broadly aligned their views on wage increases. The member continued that there might have been a shift in the norm of wages not increasing easily. Some members expressed the view that the high wage growth at large firms was attributable to their enhanced growth potential, mainly through business fixed investment, as well as to high levels of profits. Most members shared the assessment that, albeit with variation across firm sizes and regions, a wide range of firms on the whole had maintained their stance of raising wages, including local small and medium-sized firms. Some members noted that, according to anecdotal information from small and medium-sized firms gathered through the Bank's Head Office and branches, various survey results, and other sources, an increasing number of such firms had generally taken positive views toward wage hikes relative to 2023. One member added that many small and medium-sized firms had voiced that they would determine their actual wage growth rates after examining developments in wage hikes by large firms. A few members expressed the view that, as far as macro data suggest, it was unlikely that wage hikes by small and medium-sized firms overall would be limited by their profit levels. Some members said that, given the high levels of wage hikes by large firms, moves to raise wages were also expected to spread to small and medium-sized firms, mainly from the perspective of retaining their employees. One member expressed the view that the likelihood of an increase in small and medium-sized firms' capacity to raise wages could not be sufficiently confirmed solely by the provisional aggregate results of the 2024 wage negotiations compiled by the Rengo, and that it was necessary to confirm, for example, whether they would pass on the rise in personnel expenses to selling prices.

Next, members also discussed spillovers from wage increases to prices. Many members shared the assessment that services prices continued to increase moderately, partly due to the moderate wage increases thus far. A few members pointed out that, based on a time series analysis, the contribution of wages to the rise in prices had expanded. One of these members said that the relationship between the rate of increase in wages and that in sticky prices, such as services prices, had been stable. The member then expressed the view that the rate of increase in sticky prices was highly likely to rise further, reflecting the results of the 2024 annual spring labor-management wage negotiations. A few other members expressed the view that the initiatives taken by the government and business organizations had encouraged firms to pass on the rise in personnel expenses to selling prices. One member commented that, although it was not easy for small and medium-sized firms to pass on cost increases to selling prices, there were more cases where business managers had become directly involved in price negotiations. Meanwhile, one member noted that the rise in services prices was mainly due to an increase in those for dining-out on the back of a rise in the cost of food ingredients. The member continued that it was too early to say that the main factor was the effects of a pass-through to consumer prices of higher personnel expenses due to wage hikes.

Based on the above discussions, many members shared the assessment that recent data and anecdotal information from firms had gradually shown that the virtuous cycle between wages and prices had become more solid. On this basis, these members shared the assessment that the likelihood of realizing the outlook that underlying inflation would increase gradually toward achieving the price stability target of 2 percent toward the end of the projection period of the January 2024 *Outlook for Economic Activity and Prices* (Outlook Report) had risen further. One member said that, given the results of this year's annual spring labor-management wage negotiations to date, achievement of the price stability target seemed to have come in sight to some extent, mainly due to price rises accompanying wage increases. The member continued that significant progress therefore had been made toward achieving the target. One member pointed out that, on the back of corporate profits being at high levels, the rise in services prices was expected to remain moderate, even with the relatively large wage hikes presented at the annual spring labor-management wage negotiations this year. The member then expressed the view that prices were projected to be at around 2 percent while gradually transitioning to a desirable state in which they were supported by wages. A different member commented that it was highly likely that the mechanism behind price developments would continue to be consistent with the price stability target, although the inflation rate could fall below 2 percent, mainly due to temporary factors. In response to this, one member noted that, as the impact of curbing consumption could be strong in the process of the saving rate rising from negative territory back to an average level, it would not be easy for wage increases to continue exceeding price rises. The member continued that, therefore, it still could not be said that the virtuous cycle from prices to wages had become more solid on a national basis. Moreover, a different member commented that, in order to confirm whether the virtuous cycle between wages and prices had become more solid, the Bank needed to carefully assess the rise in services prices and the progress in the pass-through of cost increases to selling prices by small and medium-sized firms.

As for risks to economic activity and prices, members concurred that there were extremely high uncertainties surrounding 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, they 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.

B. Financial Developments

Members agreed that financial conditions in Japan had been accommodative. In addition, they shared the assessment that firms' funding costs had been hovering at extremely low levels. One member said that reasons why the recovery pace of Japan's economy had been moderate despite real interest rates remaining substantially negative would include, for example, the low natural rate of interest and the lagged effects of monetary policy. In relation to this, a few members pointed out that, although signs of change in growth expectations had been observed, it would take time for this change to have an impact on such factors as the natural rate of interest. A different member expressed the view that the private sector's high preference for saving could be pushing down the natural rate of interest.

IV. 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, many members shared the assessment that, as recent data and anecdotal information had gradually shown that the virtuous cycle between wages and prices had become more solid, it was appropriate for the Bank to judge that it was now within sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner toward the end of the projection period of the January 2024 Outlook Report. On this basis, these members shared the recognition that it was appropriate for the Bank to consider changing the monetary policy framework, as its large-scale monetary easing measures -- which included the policy framework of QQE with Yield Curve Control and the negative interest rate policy to date -- had likely fulfilled their roles. On the other hand, one member pointed out that, in Japan, the risk of falling into wage inflation -- as seen in the United States and Europe -- was low, and there was time to encourage, for example, the industrial structure to change to one where small and medium-sized firms passed wage hikes on to selling prices, and to assess whether such change had taken place. Moreover, this member expressed the view that, regarding monetary easing measures other than purchases of assets such as ETFs -- which were related to large firms -- and the Fund-Provisioning Measure to Stimulate Bank Lending, it was appropriate for the Bank to revise them after confirming that small and medium-sized firms' capacity to raise wages would likely increase, through information such as the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) and the reports at the meeting of general managers of the Bank's branches. A different member said that, if the overall monetary policy framework was changed at this point, there was a possibility that expectations for future policy changes would increase in a manner that did not reflect economic and price developments, resulting in a tightening of financial conditions. The member then pointed out that, if this happened, there would be a risk that the achievement of the price stability target would be delayed due to the momentum of the virtuous cycle operating in Japan's economy being lost.

In response to many members expressing the view that it was appropriate for the Bank to consider changing the monetary policy framework, members discussed <u>the direction of revisions to be made to each of the policy tools</u>.

With regard to the short-term interest rate, some members expressed the view that it was appropriate for the Bank to set the uncollateralized overnight call rate as the policy interest rate and encourage it to remain at around 0 to 0.1 percent. A few members said that, in order to realize this, the Bank could abolish the three-tier system of the Complementary Deposit Facility and apply an interest rate of 0.1 percent. One member expressed the view that, under such conditions, transactions would take place mainly between financial institutions that are eligible to receive interest under the Complementary Deposit Facility -- or those that hold current accounts at the Bank -- and those that are not. The member continued that, in this situation, short-term market rates were expected to remain at around 0 to 0.1 percent and money market functioning would be maintained. One member said that, since the increase in the short-term interest rate would only be around 0.1 percent, its effects on the real economy were likely to be small. On the other hand, one member expressed concern that terminating the negative interest rate policy simultaneously with the abolishment of the yield curve control framework entailed a risk of bringing about discontinuous changes in financial conditions, including long-term interest rates.

With respect to yield curve control, many members expressed the view that it was appropriate for the Bank to change its framework. These members shared the view that long-term interest rates would be determined by financial markets in principle. On this basis, they shared the recognition that, with regard to the purchase of JGBs, to prevent any discontinuous changes from occurring, it was appropriate for the Bank to continue its purchases at broadly the same amount as before for the time being, and to make nimble responses in the case of a rapid rise in long-term interest rates. Some members said that, in such situation, the amount outstanding of the Bank's JGB holdings would remain at a high level and thus its easing effects would continue; however, it could be considered that the conduct of JGB purchases would not be regarded as an active monetary policy tool. One of these members expressed the view that JGB purchases would be conducted from the perspective of avoiding rapid fluctuations in long-term interest rates, and in doing so, it was important to promote recovery in market liquidity while letting interest rates be determined by the market as much as possible. A different member said that it was necessary to revise the policy responses that had had side effects on market functioning to date, and to shift to a phase in which the market functioned in a self-sustaining manner. One member expressed the view that it was appropriate for the Bank to take time to deal with making adjustments in its JGB purchases to avoid rapid market fluctuations, and in the meantime, it was expected that the number of bond market participants would increase. With regard to the actual amount of JGB purchases, some members pointed out that it should be determined flexibly by the Bank's market operation desk, with some upper and lower allowances, while taking account of market developments. One of these members expressed the view that it was appropriate to conduct the purchases with an allowance of, for example, about plus and minus 1-2 trillion yen. Meanwhile, some members expressed the view that it was desirable for the Bank to reduce the amount of JGB purchases at some point in the future, and also reduce the amount outstanding of its JGB holdings through redemptions of JGBs.

With respect to asset purchases other than JGB purchases, most members expressed the view that the Bank's purchases of ETFs and J-REITs had been conducted as part of its large-scale monetary easing; thus, in a situation where the sustainable and stable achievement of the price stability target was within sight, it was appropriate for the Bank to discontinue these purchases. One member added that, considering the fact that these purchases hardly had been conducted recently, the effects would be limited even if they were discontinued. Moreover, one member pointed out that the Bank needed to take time to consider separately the treatment of its holdings of ETFs and other assets. With regard to purchases of CP and corporate bonds, many members expressed the view that it was desirable for the Bank to discontinue them while avoiding any discontinuous changes, as they were currently still being conducted. A few members expressed the view that it was appropriate for the Bank to implement a transitory period in which it would gradually reduce the amount of purchases.

Some members expressed the recognition that it was appropriate for the Bank to continue with the Fund-Provisioning Measure to Stimulate Bank Lending and other funds-supplying operations so that monetary easing effects would continue to permeate smoothly. These members continued, however, that it was appropriate for the Bank to revise the terms and conditions. One member expressed the view that, considering the current economic and price developments, allowing eligible counterparties to borrow at a fixed rate of 0 percent for four years was too generous an incentive to encourage them to borrow funds. Moreover, a different member said that it was desirable for the Bank to discontinue the system in which the eligible counterparties could borrow an amount equivalent to twice as much as the net increase in their amount outstanding of loans.

Meanwhile, members shared the recognition that the inflation-overshooting commitment regarding the monetary base had fulfilled the conditions for its achievement. One member expressed the view that, in a situation where the year-on-year rate of increase in the CPI (all items less fresh food) had been exceeding 2 percent for about two years, it could be judged that such commitment had fulfilled the conditions for its achievement once the sustainable and stable achievement of the price stability target was within sight.

Based on the above discussions, regarding the framework for future monetary policy conduct, many members shared the view that, with the price stability target of 2 percent, it was desirable for the Bank to conduct monetary policy as appropriate, guiding the short-term interest rate as a primary policy tool, in response to developments in economic activity and prices as well as financial conditions from the perspective of sustainable and stable achievement of the target. On this basis, members discussed the impact of making a shift from large-scale monetary easing on financial markets. One member expressed the view that shifting to a conventional framework in which the Bank guides the short-term interest rate as a primary policy tool from one that deployed all unconventional instruments was quite possible without causing short-term shocks, and positive effects could be expected in the medium to long term. A different member said that there was a low possibility that the changes in the policy framework would cause large fluctuations in the markets, taking account of the fact that the conduct of yield curve control had already been made more flexible and long-term interest rates had been stable in this situation, and also of the Bank's communication thus far. Moreover, a different member commented that it was important for the Bank to successfully unwind the large-scale monetary easing, and to that end, it was appropriate that the Bank reach the starting line of monetary policy normalization at this meeting.

With respect to the future conduct of monetary policy, members shared the recognition that, given the current outlook for economic activity and prices, it was anticipated that accommodative financial conditions would be maintained for the time being, although it depended on developments in economic activity and prices. Some members pointed out that medium- to long-term inflation expectations in Japan were in the process of rising toward 2 percent, and therefore the changes in the monetary policy framework would not be a shift to a phase of monetary tightening, which was the case in the United States and Europe. Some members expressed the view that it was important for the Bank to provide clear and thorough communication so that there would not be a spread in the misunderstanding that it had shifted its monetary policy stance from monetary easing to rapid policy interest rate hikes. One of these members noted that it was important to clearly communicate through the use of various methods that the changes in the monetary policy framework would not be a regime shift toward monetary tightening, but rather a part of efforts to achieve the price stability target. Meanwhile, some members expressed the view that it was important for the Bank to communicate that it would set the short-term policy interest rate appropriately in response to developments in economic activity and prices. These members continued that, in doing so, the Bank should strike a balance between communicating such a policy stance and explaining its current view that accommodative financial conditions would be maintained. A different member expressed the view that it was appropriate to proceed deliberately but steadily with monetary policy normalization in response to developments in economic activity and prices. In addition, some members pointed out that prices could rise more than expected, mainly due to discontinuous changes in expectations of economic entities, although this was not a significant risk at this point. One of these members said that, even if such risk materialized, the changes in the monetary policy framework would make it easier for the Bank to make more flexible responses.

In response to the members' views, the chairman requested that the staff present possible responses regarding specifics on the changes in the monetary policy framework. The staff presented possible responses as follows, taking account of the members' views.

(1) Treatment of a shift to a framework in which the Bank guides the short-term interest rate as a primary policy tool could be as follows.

(a) The Bank would set the guideline for market operations, in which it would encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.

In order to achieve this guideline, the Bank would apply an interest rate of 0.1 percent to current account balances held by financial institutions at the Bank (excluding required reserve balances). The new guideline for market operations and the new interest rate on the current account balances would be effective from March 21, 2024.

With regard to the provision of funds under the Funds-Supplying Operations against Pooled Collateral, which had been conducted with no upper limit since September 2022, the Bank would set the amount of offer per auction taking account of market conditions.

(b) The Bank would continue its JGB purchases at broadly the same amount as before. That said, in the case of a rapid rise in long-term interest rates, it would make nimble responses by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations of JGBs -- both of which could be done regardless of the monthly schedule of JGB purchases -- and the Funds-Supplying Operations against Pooled Collateral.

The Bank would continue to announce the planned amount of JGB purchases with a range and would conduct the purchases while taking account of factors such as market developments and supply and demand conditions for JGBs.

(c) The Bank would discontinue purchases of ETFs and J-REITs.

(d) The Bank would gradually reduce the amount of purchases of CP and corporate bonds and would discontinue the purchases in about one year.

(e) The Bank would provide loans under the Fund-Provisioning Measure to Stimulate Bank Lending, the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas, and the Funds-Supplying Operations to Support Financing for Climate Change Responses with an interest rate of 0.1 percent and a duration of one year. With regard to the Fund-Provisioning Measure to Stimulate Bank Lending, the maximum amount of funds that each eligible counterparty could borrow would be equivalent to the net increase in its amount outstanding of loans.

(2) The description of the Bank's future policy conduct and related view could be as follows.

(a) With the price stability target of 2 percent, the Bank would conduct monetary policy as appropriate, in response to developments in economic activity and prices as well as financial conditions from the perspective of sustainable and stable achievement of the target.

(b) Given the current outlook for economic activity and prices, the Bank anticipated that accommodative financial conditions would be maintained for the time being.

In reaction to the staff's explanation, many members shared the view that the responses presented by the staff were appropriate. Meanwhile, one member pointed out that it was necessary for the Bank to look back broadly at monetary policy over the past quarter century while taking account of the changes in the policy framework that were proposed at this meeting. The member then added that it was important to utilize the findings of the ongoing review of monetary policy from a broad perspective in the future conduct of monetary policy.

Based on the above discussions, regarding the guideline for market operations for the intermeeting period, many members expressed the view that it was appropriate that the Bank encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.

Regarding the purchase of JGBs, most members expressed the view that it was appropriate that the Bank (1) continue its JGB purchases at broadly the same amount as before, and (2) in the case of a rapid rise in long-term interest rates, make nimble responses by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations of JGBs -- both of which could be done regardless of the monthly schedule of JGB purchases -- and the Funds-Supplying Operations against Pooled Collateral.

In response, one member expressed the opinion that, while the member was in favor of discontinuing purchases of ETFs and other assets, which were mainly related to large firms, the Bank, in order to ensure that the price stability target would be achieved, should continue with the negative interest rate policy and the policy framework of QQE with Yield Curve Control until it confirmed that results of large firms' reforms had brought about an increase in small and medium-sized firms' earning power and their capacity to raise wages. A different member expressed the opinion that it was appropriate for the Bank to decide at this meeting to continue with the negative interest rate policy, considering that terminating the yield curve control framework and the negative interest rate policy simultaneously should be avoided from the perspective that the Bank should avoid the risk of bringing about discontinuous changes in financial conditions.

With respect to asset purchases other than JGB purchases, members shared the recognition that it was appropriate for the Bank to discontinue purchases of ETFs and J-REITs. They also shared the recognition that it was appropriate for the Bank to gradually reduce the amount of purchases of CP and corporate bonds and discontinue the purchases in about one year.

With respect to the treatment of new loan disbursements under the Fund-Provisioning Measure to Stimulate Bank Lending etc., members shared the recognition that it was appropriate for the Bank to provide loans under the Fund-Provisioning Measure to Stimulate Bank Lending, the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas, and the Funds-Supplying Operations to Support Financing for Climate Change Responses with an interest rate of 0.1 percent and a duration of one year. They continued that, with regard to the Fund-Provisioning Measure to Stimulate Bank Lending, the maximum amount of funds that each eligible counterparty could borrow would be equivalent to the net increase in its amount outstanding of loans.

With regard to the Bank's basic stance on its future conduct of monetary policy, members concurred that, with the price stability target of 2 percent, it would conduct monetary policy as appropriate, guiding the short-term interest rate as a primary policy tool, in response to developments in economic activity and prices as well as financial conditions from the perspective of sustainable and stable achievement of the target. They also agreed that, given the current outlook for economic activity and prices, the Bank anticipated that accommodative financial conditions would be maintained for the time being.

V. 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 12:00 p.m.)

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

(1) The government considered that the proposals made at this meeting reflected the Bank's intention to keep aiming to achieve the price stability target of 2 percent in a sustainable and stable manner.

(2) Private consumption lacked firmness, although positive developments had been observed in, for example, wage growth and business fixed investment. In addition, the government recognized the risks concerning overseas economies.

(3) The Bank had explained that it would continue to maintain accommodative financial conditions. Meanwhile, the government expected the Bank to keep conducting monetary policy as appropriate toward sustainable and stable achievement of the price stability target of 2 percent 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, although it recently appeared to be pausing. Regarding the outlook, the economy was expected to continue recovering at a moderate pace with the improving employment and income situation, including continuous high wage increases, supported by the effects of the policies.

(2) The government considered that the proposals made at this meeting reflected the positive developments, in that an intensification of the virtuous cycle between wages and prices had progressed, and it shared the same recognition with the Bank.

(3) In order to strengthen the economic recovery and achieve sustainable growth led by private demand, the government considered it necessary for the Bank to continue to firmly support the economy from the financial side.

(4) The government expected the Bank to conduct monetary policy as appropriate toward achieving the price stability target of 2 percent, which is mentioned in the joint statement of the government and the Bank, in a sustainable and stable manner while closely cooperating and exchanging views with the government.

VI. Votes

A. Vote on the Guideline for Market Operations

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

The Policy Board decided the proposal by a majority vote.

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

The guideline for market operations for the intermeeting period will be as follows.

> The Bank will encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.

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

Votes against the proposal: NAKAMURA Toyoaki and NOGUCHI Asahi.

While Nakamura Toyoaki was in favor of discontinuing purchases of ETFs and other assets, which were mainly related to large firms, he dissented, considering that the Bank should continue with the negative interest rate policy until it confirmed that the capacity of small and medium-sized firms -- whose recovery in business performance was delayed -- to raise wages would likely increase. Noguchi Asahi dissented, considering that terminating the yield curve control framework and the negative interest rate policy simultaneously should be avoided from the perspective that the Bank should more carefully assess whether the virtuous cycle between wages and prices had become more solid and avoid the risk of bringing about discontinuous changes in financial conditions.

B. Vote on the Guideline for the Purchase of JGBs

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

The Policy Board decided the proposal by a majority vote.

The Chairman's Policy Proposal on the Guideline for the Purchase of JGBs:

The guideline for JGB purchases will be as follows.

> The Bank will continue its JGB purchases at broadly the same amount as before. In the case of a rapid rise in long-term interest rates, it will make nimble responses by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations of JGBs -- both of which can be done regardless of the monthly schedule of JGB purchases -- 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.

Nakamura Toyoaki dissented for the same reason as he opposed the proposal regarding the guideline for market operations.

C. Vote on the Guideline for Asset Purchases Other Than JGB Purchases

To reflect the view of the members, the chairman formulated the following proposal on the guideline for asset purchases other than JGB 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 Other Than JGB Purchases:

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

1. The Bank will discontinue purchases of ETFs and J-REITs.

2. The Bank will gradually reduce the amount of purchases of CP and corporate bonds and will discontinue the purchases in about one year.

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. Vote on Treatment of New Loan Disbursements under the Fund-Provisioning Measure to Stimulate Bank Lending etc.

To reflect the view of the members, the chairman formulated the following proposal and put it to a vote: the Bank will provide loans under the Fund-Provisioning Measure to Stimulate Bank Lending, the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas, and the Funds-Supplying Operations to Support Financing for Climate Change Responses with an interest rate of 0.1 percent and a duration of one year. With regard to the Fund-Provisioning Measure to Stimulate Bank Lending, the maximum amount of funds that each eligible counterparty can borrow will be equivalent to the net increase in its amount outstanding of loans.

The Policy Board decided the proposal by a unanimous vote.

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.

E. Vote on Amendment to "Principal Terms and Conditions of Complementary Deposit Facility"

The chairman formulated a proposal on amendment to "Principal Terms and Conditions of Complementary Deposit Facility" in accordance with changes in the monetary policy framework, and put it to a vote. The Policy Board decided the proposal by a majority vote and agreed that the decision should be made public promptly after the meeting.

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

Nakamura Toyoaki dissented from the amendment related to the proposals on the guidelines for market operations and JGB purchases, as he had voted against them. Noguchi Asahi dissented from the amendment related to the proposal on the guideline for market operations, as he had voted against it.

F. Discussion on the Statement Entitled "Changes in the Monetary Policy Framework"

On the basis of the above discussions, members discussed the statement "Changes in the Monetary Policy Framework." The chairman formulated the statement "Changes in the Monetary Policy Framework" 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 1).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of January 22 and 23, 2024, for release on March 25.

Attachment 1
March 19, 2024
Bank of Japan

Changes in the Monetary Policy Framework

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan assessed the virtuous cycle between wages and prices, and judged it came in sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner toward the end of the projection period of the January 2024 Outlook Report (*Outlook for Economic Activity and Prices*). The Bank considers that the policy framework of Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control and the negative interest rate policy to date have fulfilled their roles. With the price stability target of 2 percent, it will conduct monetary policy as appropriate, guiding the short-term interest rate as a primary policy tool, in response to developments in economic activity and prices as well as financial conditions from the perspective of sustainable and stable achievement of the target.[8] Given the current outlook for economic activity and prices, the Bank anticipates that accommodative financial conditions will be maintained for the time being.

   On this basis, the Bank made the following decisions, including that on the guideline for market operations.

   (1) Guideline for market operations (a 7-2 majority vote) [Note 1]

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

   The Bank will encourage the uncollateralized overnight call rate to remain at around 0 to 0.1 percent.[9]

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8 The Bank judged that the inflation-overshooting commitment regarding the monetary base had fulfilled the conditions for its achievement.

9 In order to achieve this guideline, the Bank will apply an interest rate of 0.1 percent to current account balances held by financial institutions at the Bank (excluding required reserve balances). The new guideline for market operations and the new interest rate on the current account balances will be effective from March 21, 2024.

(2) Purchase of Japanese government bonds (JGBs) (an 8-1 majority vote) [Note 2]

The Bank will continue its JGB purchases with broadly the same amount as before.[10] In case of a rapid rise in long-term interest rates, it will make nimble responses by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations of JGBs -- both of which can be done so regardless of the monthly schedule of JGB purchases -- and the Funds-Supplying Operations against Pooled Collateral.

(3) Asset purchases other than JGB purchases (a unanimous vote)

a) The Bank will discontinue purchases of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs).

b) The Bank will gradually reduce the amount of purchases of CP and corporate bonds and will discontinue the purchases in about one year.

(4) Treatment of new loan disbursements under the Fund-Provisioning Measure to Stimulate Bank Lending etc. (a unanimous vote)

The Bank will provide loans under the Fund-Provisioning Measure to Stimulate Bank Lending, the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas, and the Funds-Supplying Operations to Support Financing for Climate Change Responses with an interest rate of 0.1 percent and a duration of one year. With regard to the Fund-Provisioning Measure to Stimulate Bank Lending, the maximum amount of funds that each eligible counterparty can borrow will be equivalent to the net increase in its amount outstanding of loans.

2. Japan's economy has recovered moderately, although some weakness has been seen in part (see Attachment 2). Looking at the background conditions of wage developments, corporate profits have continued to improve and labor market conditions have been tight. In this situation, as indicated by the results of this year's annual spring labor-management wage negotiations to date, it is highly likely that wages will continue to increase steadily this year, following the firm wage increase last year. Moreover, anecdotal information from firms -- which is gathered through the Bank's Head Office and branches -- suggests that a wide range of firms have maintained their stance of raising wages. On the price front, while the effects of a pass-through

[10] The amount of JGB purchases is currently about 6 trillion yen per month. The Bank will continue to announce the planned amount of JGB purchases with a range and will conduct the purchases while taking account of factors such as market developments and supply and demand conditions for JGBs.

to consumer prices of cost increases led by the past rise in import prices have waned, services prices have continued to increase moderately, partly due to the moderate wage increases seen thus far. As these recent data and anecdotal information have gradually shown that the virtuous cycle between wages and prices has become more solid, the Bank judged it came in sight that the price stability target would be achieved in a sustainable and stable manner toward the end of the projection period of the January 2024 Outlook Report.

[Note 1] Voting for the action: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki. Voting against the action: NAKAMURA Toyoaki and NOGUCHI Asahi. While Nakamura Toyoaki was in favor of discontinuing purchases of ETFs and other assets, which were mainly related to large firms, he dissented, considering that the Bank should continue with the negative interest rate policy until it confirmed that the capacity of small and medium-sized firms -- whose recovery in business performance was delayed -- to raise wages would likely increase. Noguchi Asahi dissented, considering that terminating the yield curve control framework and the negative interest rate policy simultaneously should be avoided from the perspective that the Bank should more carefully assess whether the virtuous cycle between wages and prices had become more solid and avoid the risk of bringing about discontinuous changes in financial conditions.

[Note 2] 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. Nakamura Toyoaki dissented for the same reason as he opposed the proposal regarding the guideline for market operations.

Attachment 2

Economic Activity and Prices in Japan: Current Situation and Outlook

1. Japan's economy has recovered moderately, although some weakness has been seen in part. The pace of recovery in overseas economies has slowed. Although exports have been affected by the developments in overseas economies, they have been more or less flat. Industrial production has been more or less flat as a trend, but it has declined recently, partly due to the effects of a suspension of production and shipment at some automakers. With corporate profits improving, business fixed investment has been on a moderate increasing trend. The employment and income situation has improved moderately. Private consumption has been resilient, although the impact of price rises and developments such as a decline in automobile sales due to the suspension of shipment at some automakers have been observed. Housing investment has been relatively weak. Public investment has been more or less flat. Financial conditions have been accommodative. On the price front, the negative contribution of energy prices to the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) has been relatively large, partly due to the government's economic measures. That said, the rate of increase in the CPI has been at around 2 percent recently, mainly on the back of the fact that, despite waning, the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices have remained, and services prices have increased moderately. Inflation expectations have risen moderately.

2. Japan's economy is likely to continue recovering moderately for the time being, supported by factors such as the materialization of pent-up demand, although it is expected to be under downward pressure stemming from a slowdown in the pace of recovery in overseas economies. Thereafter, as a virtuous cycle from income to spending gradually intensifies, 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 be above 2 percent through fiscal 2024, due to factors such as the effects, albeit waning, of the pass-through to consumer prices of cost increases led by the past rise in import prices and a waning of the effects of the government's economic measures pushing down CPI inflation of the previous year. Thereafter, the rate of increase is projected to decelerate owing to dissipation of these factors. Meanwhile, underlying CPI inflation is likely to increase gradually toward achieving the price stability target, as the output gap turns positive and as medium- to long-term inflation expectations and wage growth rise.

3. Concerning risks to the outlook, there are extremely high uncertainties surrounding 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.