Not to be released until 8:50 a.m. Japan Standard Time on Thursday, September 26, 2024.

September 26, 2024

Bank of Japan

Minutes of the Monetary Policy Meeting
on July 30 and 31, 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 Tuesday, July 30, 2024, from 2:00 p.m. to 3:51 p.m., and on Wednesday, July 31, from 9:00 a.m. to 12:49 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]
TERAOKA Mitsuhiro, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]
IBAYASHI Tatsunori, State Minister of Cabinet Office, Cabinet Office[2]
HAYASHI Sachihiro, Vice-Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

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

---

[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on September 19 and 20, 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 July 31.
[3] Present on July 30.

MASAKI Kazuhiro, Director-General, Monetary Affairs Department

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

SUZUKI Koichiro, Director-General, Financial System and Bank Examination Department

FUJITA Kenji, Director-General, Financial Markets Department

NAKAMURA Koji, Director-General, Research and Statistics Department

NAGAHATA Takashi, Head of Economic Research Division, Research and Statistics Department

CHIKADA Ken, Director-General, International Department

Secretariat of the Monetary Policy Meeting

HARIMOTO Keiko, Director-General, Secretariat of the Policy Board

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

HATTORI Ryota, Deputy Director-General, Monetary Affairs Department[4]

TSUCHIKAWA Akira, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

ANDO Masatoshi, Senior Economist, Monetary Affairs Department

MARUO Yuji, Senior Economist, Monetary Affairs Department

NISHINO Kousuke, Senior Economist, Monetary Affairs Department

[4] Present on July 31 from 10:22 a.m. to 12:49 p.m.

I. Summary of Staff Reports on Economic and Financial Developments[5]

A. Market Operations in the Intermeeting Period

The Bank had been conducting money market operations in accordance with the guideline for money market operations decided at the previous meeting on June 13 and 14, 2024.[6] The uncollateralized overnight call rate had been in the range of 0.076 to 0.083 percent.

Meanwhile, regarding purchases of Japanese government bonds (JGBs), CP, and corporate bonds, the Bank conducted the purchases in accordance with the decisions made at the March 2024 meeting.

B. Recent Developments in Financial Markets

In the money market, interest rates on both overnight and term instruments had been at low levels. With regard to interest rates on overnight instruments, the uncollateralized call rate had been in the range of around 0.075 to 0.080 percent; the general collateral (GC) repo rate had been in the range of around 0 to 0.1 percent, albeit with temporary fluctuations. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had increased somewhat.

The Tokyo Stock Price Index (TOPIX) was more or less unchanged over the intermeeting period; it had increased, mainly due to expectations for improvement in corporate profits, and had then declined, reflecting a decrease in U.S. stock prices and the correction of the past depreciation of the yen. Yields on 10-year JGBs had risen slightly, mainly against the background of market participants' views on the future conduct of monetary policy. Many of the liquidity indicators in the JGB markets had seen something of a pause in their improvement but remained at improved levels compared to around the end of 2023. In the foreign exchange market, the yen had appreciated against both the U.S. dollar and the euro over the intermeeting period.

---

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

[6] The guideline was as follows:

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

C. Overseas Economic and Financial Developments

Overseas economies had grown moderately on the whole. The U.S. economy had grown moderately, mainly led by private consumption, although it had been affected by past policy interest rate hikes by the Federal Reserve. European economies had started to bottom out. The Chinese economy had improved moderately, partly due to government support, despite the continued effects of adjustments in the real estate market. 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, overseas economies were projected to keep growing moderately. There were 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, U.S. long-term interest rates had declined slightly over the intermeeting period; they had temporarily risen reflecting heightened vigilance against the possibility of a future deterioration in fiscal conditions, but had subsequently fallen, mainly due to price indicators being lower than market expectations. European long-term interest rates had also declined slightly over the intermeeting period, fluctuating in line with U.S. interest rates. U.S. stock prices were unchanged over the intermeeting period; they had risen, with the further spread of moves to factor in possible policy interest rate cuts by the Federal Reserve in the future, and had then fallen, mainly due to corporate results of some high-tech firms being weaker than market expectations. European stock prices were more or less unchanged, constrained by heightened uncertainties regarding the political situation in France. Meanwhile, currencies in emerging economies had been more or less flat, and crude oil prices had recently fallen.

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 keep growing at a pace above its potential growth rate, with overseas economies continuing to grow moderately and as a virtuous cycle from income to spending gradually intensified against the background of factors such as accommodative financial conditions.

Exports had been more or less flat. Regarding the outlook, they were likely to continue showing similar developments for the time being. Thereafter, as overseas economies continued to grow moderately, exports were projected to return to an uptrend, mainly due to a pick-up in global demand for IT-related goods.

Industrial production had been more or less flat. Regarding the outlook, it was likely to continue showing similar developments for the time being. Thereafter, it was projected to return to an uptrend, reflecting the pick-up in global demand for IT-related goods and other developments in domestic and external demand.

Corporate profits had improved. Business sentiment had stayed at a favorable level. 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 accommodative financial conditions, as corporate profits followed an improving trend.

Private consumption had been resilient despite the impact of price rises and other factors. The consumption activity index (CAI; real, travel balance adjusted) had declined for the January-March quarter of 2024, mainly due to the effects of suspension of production and shipment at some automakers. It had then increased for the April-May period as automobile sales picked up. Based on anecdotal information from firms and high-frequency indicators, private consumption since June seemed to have been resilient, although an intensified thriftiness among households that reflected price rises continued to be pointed out by some firms. While consumer sentiment continued to improve until recently, it was currently deteriorating somewhat compared with a while ago. Regarding the outlook, for the time being, although private consumption was expected to be affected by price rises, it was projected to increase moderately, partly due to the effects of the government's economic measures and with nominal employee income continuing to improve. Thereafter, it was likely to continue increasing moderately as employee income continued to improve.

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. The number of non-regular employees had also been on a moderate uptrend, albeit with fluctuations. Nominal wages per employee had increased clearly, reflecting the recovery in economic activity and the results of the 2024 annual spring labor-management wage negotiations. 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 change in real employee income was projected to gradually turn positive despite the effects of energy prices.

As for prices, commodity prices had been more or less flat on the whole. The rate of change in the producer price index (PPI, adjusted for the effects of seasonal changes in electricity rates) relative to three months earlier had risen to around 1.5 percent. This reflected factors such as moves to pass on increases in raw material costs, personnel expenses, and other costs to prices, as well as a scaling back of the government's measures to reduce the household burden of higher electricity and gas charges. The year-on-year rate of increase in the services producer price index (SPPI, excluding international transportation) remained relatively high at around 3 percent recently, mainly on the back of the rise in personnel expenses. The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) had been at around 2.5 percent recently, as services prices continued to rise moderately, reflecting factors such as wage increases, although the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices had waned. Inflation expectations had risen moderately. With regard to the outlook for the year-on-year rate of increase in the CPI (all items less fresh food), while the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices were expected to wane, the rate of increase was projected to be pushed up through fiscal 2025 by factors such as a dissipation of the effects of the government's measures pushing down CPI inflation. Meanwhile, underlying CPI inflation was expected to increase gradually, since it was projected that the output gap would improve and that medium- to long-term inflation expectations would rise with a virtuous cycle between wages and prices continuing to intensify. In the second half of the projection period, underlying CPI inflation was likely to be at a level that was generally consistent with the price stability target.

2. Financial environment

Japan's financial conditions had been accommodative.

Real interest rates had been negative. Firms' funding costs had increased but remained at low levels. 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. 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 2.5 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 money stock had been at around 1.5 percent.

3. Financial system

Japan's financial system maintained stability on the whole.

Profits of major banks had been firm, mainly owing to increases in interest on loans, as well as income from fees and commissions. Meanwhile, their credit costs had been at low levels on the whole. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

Profits of regional banks and *shinkin* banks had been firm on the back of an increase in the amount outstanding of bank lending. Meanwhile, their 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*, 11 showed neither an overheating nor a contraction of financial activities, and three -- including one indicating stock prices -- showed deviations from the trends toward overheating. Regarding the financial gap, the positive gap remained narrow compared with a while ago. Although stock prices had risen somewhat rapidly and valuations of some properties in the real estate market seemed to have been relatively high, there had been no overheating of financial activities overall so far. However, it was necessary to continue paying close attention to whether financial activities would not significantly deviate from real economic activity.

II. Summary of Discussions by the Policy Board on Economic and Financial Developments and the July 2024 *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, although market sentiment remained generally calm, attention continued to be drawn to uncertainties over the outlook for the global economy, and moves to factor in possible policy interest rate cuts by the Federal Reserve had spread further. On this basis, one member noted that the market had factored in possible policy interest rate cuts by the Federal Reserve with a slackening of the U.S. labor market becoming evident, and that this could change the trend of the U.S. dollar's appreciation since the beginning of 2024.

Members shared the recognition that overseas economies had grown moderately on the whole.

Members agreed that the U.S. economy had grown moderately, mainly led by private consumption, although it had been affected by past policy interest rate hikes by the Federal Reserve. On this basis, some members pointed to a slowdown in the U.S. inflation rate, which previously remained high, and expressed the view that it was becoming increasingly likely that a soft landing scenario would be realized, in which price stability would be achieved without a sharp economic slowdown. One of these members added that the U.S. inflation rate indicated by daily price surveys had been on a clearer slowing trend than that indicated by the CPI. A different member noted that, as signs of weakening had been seen in the employment and income situation, it was highly likely that the U.S. economy would slow moderately. On this basis, the member added that attention continued to be warranted on the risk of inflation resurging due, for example, to increased tension over the situation in the Middle East and to growing trade friction. One member said that on-hand liquidity in the private sector had been abundant, partly owing to fiscal expansion in the past, and that this had supported spending even amid inflation.

Members shared the recognition that European economies had started to bottom out. One member pointed out that signs of recovery had emerged in these economies as the European Central Bank (ECB) had decided to lower its policy interest rates in June 2024. On the other hand, while noting that the inflation rate in Europe had moderated compared with a while ago, a different member expressed concern that the wage growth rate remained high and the German economy had become increasingly sluggish due to the impact of past policy interest rate hikes by the ECB.

Members shared the view that the Chinese economy had improved moderately, partly due to government support, despite the continued effects of adjustments in the real estate market. A few members pointed out that it remained highly uncertain whether the economy would return to a stable growth path, although a slowing trend in the economy had been staved off, partly due to stronger responses by the government. One of these members noted that there was no change in structural problems regarding domestic demand shortages, mainly due to the declining birthrate and aging population, and excessive supply. The member then expressed concern over an expansion in exports that reflected inventory adjustment pressure and over the consequent growing trade friction. A different member said that, given Japan's experience after the bursting of the bubble economy, adjustments in the real estate market might take longer than expected, thus requiring time and patience.

Members shared the recognition that 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.

Members agreed that financial conditions in Japan had been accommodative. In addition, they shared the view that firms' funding costs had increased but remained at low levels.

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 shared the recognition that Japan's economy had recovered moderately, although some weakness had been seen in part.

Members concurred that exports had been more or less flat.

Members shared the view that industrial production had been more or less flat. One member noted that it was encouraging that the effects of the suspension of production and shipment at some automakers had turned out not to be of the scale seen in the January-March quarter of 2024.

Members agreed that business fixed investment had been on a moderate increasing trend with corporate profits improving and business sentiment staying at a favorable level.

Members concurred that private consumption had been resilient despite the impact of price rises and other factors. One member noted that the recent weakness in private consumption was partly attributable to a fall in the number of automobiles sold following a decline in automobile production. One member expressed the view that, although private consumption appeared to lack momentum based on macroeconomic statistics, microeconomic data had shown some strong developments, and that private consumption had therefore not necessarily been weak. Some members pointed out that, given, for example, post-pandemic changes in the economic structure, it was possibly becoming difficult for statistics to accurately capture developments in consumption of services and online consumption. These members then said that, according to sources such as anecdotal information collected by the Bank's branches, the actual condition of private consumption appeared to be resilient, despite a lack of momentum. In relation to this, as background to the recent lack of momentum in private consumption, many members pointed to the fact that nominal wage increases had not caught up with the rise in prices to date. One of these members noted that, although wages had been raised, the level of these hikes was still far from sufficient, since developments over the past three years or so had been that prices always rose first, followed by wage increases in the subsequent year. The member continued that this had been a factor constraining private consumption. In addition, many members pointed out that developments in private consumption varied significantly across households. One of these members said that notably sluggish sales of relatively low-price products indicated that the impact of price rises had been significant especially among low-income households.

Members shared the view that the employment and income situation had improved moderately. A few members noted that a trend of base pay increases being reflected in wages had been confirmed in the May *Monthly Labour Survey*. These members then expressed the view that the latest annex paper to the *Regional Economic Report* -- a compilation of micro-level information collected using the network of the Bank's Head Office and branches -- also suggested that moves to raise wages had spread across a wide range of regions, industries, and firm sizes, including small, medium-sized, and larger firms in regional areas, even though these moves included wage hikes made as a defensive step. On the other hand, one member said that, according to a survey conducted by the Small and Medium Enterprise Agency, the cost pass-through rate among small and medium-sized firms was more or less unchanged from six months earlier, and the member was concerned about a future slowdown in wage growth due to sluggishness in firms' pass-through of cost increases to prices.

As for prices, members agreed that the year-on-year rate of increase in the CPI (all items less fresh food) had been at around 2.5 percent recently, as services prices continued to rise moderately, reflecting factors such as wage increases, although the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices had waned. One member noted that, looking at developments in services prices by item, the rate of increase had been gradually rising even for items susceptible to labor costs, and that the peak of the distribution of price changes had shifted from close to 0 to close to 2 percent. A different member pointed out that, as often happens at the beginning of the first and second halves of the fiscal year, revisions in services prices had been confirmed in April 2024, the beginning of the fiscal year.

Meanwhile, members agreed that inflation expectations had risen moderately. One member expressed the view that, looking at firms' outlook for output prices in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the higher the ratio of labor costs in an industry's input costs, the higher its outlook for output prices for five years ahead, and that this suggested firms' stance to be one of reflecting wage increases in selling prices. A different member noted that, in addition to the yen's depreciation and the rise in import prices, the rise in prices of fresh food over the past few years had also raised households' perceived inflation. The member then expressed the view that, apart from the achievement of the price stability target in a strict sense, it was necessary to recognize that households in particular had started to become more conscious of the likelihood of the target being achieved, with inflation now in its third year above 2 percent.

B. Outlook for Economic Activity and Prices

In formulating the July 2024 *Outlook for Economic Activity and Prices* (hereafter the 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 keep growing at a pace above its potential growth rate, with overseas economies growing moderately and as the virtuous cycle from income to spending gradually intensified against the background of factors such as accommodative financial conditions.

Members agreed that, as overseas economies continued to grow moderately, Japan's exports were projected to return to an uptrend, mainly due to the pick-up in global demand for IT-related goods. In addition, they shared the view that inbound tourism demand, which is categorized under services exports, was expected to continue increasing. On this basis, one member said that the European and Chinese economies might have entered a structural stagnation phase and that the U.S. economy, which had been firm to date, was also unlikely to accelerate its pace of growth. The member continued that exports were therefore unlikely to increase substantially.

Members shared the view that industrial production was likely to return to an uptrend, mainly due to the pick-up in global demand for IT-related goods.

Members concurred that, as corporate profits followed an improving trend and accommodative financial conditions provided support, business fixed investment was likely to continue on an increasing trend, 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 uncertainties such as those surrounding the U.S. presidential election could constrain business fixed investment within the manufacturing industry. The member continued that investment was nevertheless highly likely to be firm in areas related to domestic demand, such as IT-related investment to facilitate digital transformation and investment in urban redevelopment projects. One member said that investment from the perspective of economic security had started to expand, due in part to government support in fostering the semiconductor industry, for example, and expressed the hope that such moves would spread further.

Members agreed that, for the time being, although private consumption was expected to be affected by price rises, it was projected to increase moderately, mainly reflecting the rise in wage growth and partly due to the effects of the government's economic measures. They shared the view that, thereafter, private consumption was likely to continue increasing moderately as employee income continued to improve. Many members expressed the view that private consumption would be supported by improvement in nominal income and that this was due not only to factors such as cuts in income tax and inhabitant tax but also to the improvement in employee income. In relation to this, one member expressed the view that the economic situation, including private consumption, was expected to improve over time as long as momentum in nominal wage growth was maintained. The member continued that, nevertheless, Japan was currently in a phase in which it was important to patiently monitor if waves of wage hikes would permeate the economy and increase sustainability. One member expected that the new Nippon Individual Savings Account (NISA) program would stimulate private consumption through a sustained increase in income based on financial assets. Meanwhile, one member noted that attention was warranted on the fact that prolonged negative real interest rates could cause income transfer from fund providers, including the household sector, to fund users, who are less burdened in real terms.

Members shared the view that employment was likely to continue rising, but the pace of increase was projected to moderate gradually; this was because it would become more difficult for labor supply to increase, with labor force participation of women and seniors having advanced to a high degree thus far. They continued that, nevertheless, as these developments would lead to an increased tightening of labor market conditions during the course of the economic recovery, wage growth was expected to increase as a trend, partly reflecting price rises, and employee income was projected to continue increasing. Some members expressed the view that scheduled cash earnings were expected to increase, reflecting the results of the 2024 annual spring labor-management wage negotiations, and that various surveys indicated that summer bonus payments were likely to increase firmly on the back of favorable corporate profits. These members continued that these developments would push up employee income for the time being. One member pointed out that an increasing number of firms had reported that they would need to continue raising wages in fiscal 2025 and beyond, with a view to recruiting and retaining employees and maintaining employee motivation. On this basis, the member noted that there were growing differences between firms' initiatives to adapt to the new economic environment, and that it had therefore become difficult to grasp the true state of the economy merely by observing general trends. In relation to this, one member expressed the view that, given certain structural issues in Japan -- such as the declining birthrate and aging population and the industrial structure generating low profits -- it would likely take some more time for productivity to improve at firms, including small, medium-sized, and larger firms. This member continued that it would therefore also take time to achieve sustained wage increases. The member added the hope that fostering businesses with high international competitiveness would lead to industrial clusters and an expansion in exports, which would likely affect growth-oriented small, medium-sized, and larger firms in the form of an increase in investment for domestic capacity expansion and a rise in employment. In response to this, one member noted that, while productivity improvement was essential to real wage increases in the long term, the current issue was that real wages had declined despite the rise in corporate profits. The member continued that a matter for discussion for the time being was whether real wages would rise to a level that was in line with productivity. While noting that some overseas economies had seen simultaneously both relatively low real growth rates and sustained nominal wage growth, a different member said that it was necessary for the Bank to distinguish somewhat between nominal wages and prices on the one hand and the real economy and productivity on the other.

Based on this discussion, members shared the recognition that, comparing the projections with those in the April 2024 Outlook Report, the projected real GDP growth rate for fiscal 2024 was somewhat lower, mainly due to the impact of the statistical revision to the GDP figures for fiscal 2023, but the projected growth rates for fiscal 2025 onward were more or less unchanged. They continued that the basic view on future economic developments was unchanged.

Members then discussed the baseline scenario of the outlook for Japan's price developments. They agreed that the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be at around 2.5 percent for fiscal 2024 and then be at around 2 percent for fiscal 2025 and 2026. In addition, they shared the recognition that, while the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices were expected to wane, the rate of increase was projected to be pushed up through fiscal 2025 by factors such as a dissipation of the effects of the government's measures pushing down CPI inflation. One member expressed the view that, under the government's measures to curb high energy prices, the year-on-year rate of increase in the CPI could temporarily fall below 2 percent around autumn 2024 or beyond, but that it was likely to be above 2 percent again once these measures were terminated.

Meanwhile, with regard to underlying CPI inflation, members shared the view that it was expected to increase gradually, since it was projected that the output gap would improve and that medium- to long-term inflation expectations would rise with the virtuous cycle between wages and prices continuing to intensify. They continued that, in the second half of the projection period, underlying CPI inflation was likely to be at a level that was generally consistent with the price stability target. A few members pointed out that the likelihood of achieving the price stability target had risen further. Moreover, one member noted that, in addition to developments in economic activity, price developments could be assessed as being on track, as seen in the results of the 2024 annual spring labor-management wage negotiations being reflected in wages. One member pointed out that, with firms' behavior shifting more toward raising wages and prices and given factors such as the recent rises in wages and the SPPI, firms were highly likely to raise prices to a considerable degree in October 2024, the beginning of the second half of the fiscal year, as was the case in April, the beginning of the fiscal year. One member expressed the view that medium- to long-term inflation expectations had risen, and the results of the 2024 annual spring labor-management wage negotiations had started to be reflected in the statistics. The member continued that, considering this and other factors, the virtuous cycle between wages and prices had likely begun to operate, and underlying inflation had shown steady progress toward 2 percent. A different member said that upward pressure on prices was likely to remain because of tight labor market conditions and the effects of the upper limits on working hours, in addition to the rise in import prices due to inflation overseas and the past depreciation of the yen. In relation to this, one member commented that, according to anecdotal information from firms, many firms, including small and medium-sized firms, had reported that they would continue to raise wages or had no choice but to do so, with labor market conditions tightening. The member continued that this was likely to be reflected in prices.

Members shared the recognition that, comparing the projections with those in the April 2024 Outlook Report, the projected year-on-year rate of increase in the CPI (all items less fresh food) for fiscal 2024 was lower, mainly due to the effects of the government's measures to reduce the household burden of higher gasoline prices and its emergency measures against higher electricity and gas charges, whereas the projected rate of increase in the CPI for fiscal 2025 was somewhat higher due to a dissipation of the effects of these measures. They continued that the projected rate of increase in the CPI for fiscal 2026 was more or less unchanged.

Members then discussed <u>upside and downside risks to economic activity and prices</u>. They concurred that there remained 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, 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 import prices, particularly those of commodities, including grains; and (3) the impact of various changes in the environment surrounding Japan on firms' and households' medium- to long-term growth expectations and on Japan's potential growth rate.

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 prices and domestic prices. On this basis, members shared the recognition that it was notable that, with firms' behavior shifting more toward raising wages and prices recently, exchange rate developments were, compared to the past, more likely to affect prices. In relation to this, many members pointed out that the year-on-year rate of change in import prices had turned positive again, partly due to the past depreciation of the yen. One of these members commented that producer prices had already been on an uptrend as it had become easier for firms to pass on higher costs to prices, and that there was a risk of this trend spreading to consumer prices to a relatively large extent. A different member expressed the view that upside risks to prices required attention due to the fact that a rising number of industries had seen supply shortages and excess demand as a result of labor shortages, in addition to the impact of the yen's depreciation. On the other hand, one member said that the upward pressure on prices might weaken, owing to factors such as the peaking-out of the yen's depreciation and a slower rise in commodity prices that reflected economic stagnation, particularly in China. The member continued that it was also uncertain whether wage growth would remain high and put upward pressure on prices.

With regard to the risk balance, members shared the view that risks to economic activity were skewed to the upside for fiscal 2025. They agreed that risks to prices were skewed to the upside for fiscal 2024 and 2025. Many members shared the recognition that, given that the year-on-year rate of change in import prices had turned positive again, upside risks to prices required attention in conducting monetary policy.

III. Staff Reports on a Plan for the Reduction of the Purchase Amount of Japanese Government Bonds

The staff first reported market participants' views on a plan for the reduction of the Bank's purchase amount of JGBs, views which were collected at the Bond Market Group Meeting held on July 9 and 10, 2024, based on the guideline for the reduction decided at the Monetary Policy Meeting held on June 13 and 14.

(1) With regard to the amount of the reduction, while there was a wide range of opinions, many participants said that it was desirable for the Bank to reduce the amount of its monthly purchases to about 3 trillion yen, considering factors such as the JGB holding capacity of investors and the degree of improvement in market functioning.

(2) As for the pace of the reduction, some participants commented that the Bank should swiftly reduce its purchases by a certain amount, but many others said that the Bank should gradually reduce the purchase amount over around 2 years, mainly from the view point of suppressing market volatility.

(3) Regarding the guidance on the reduction, some participants opted for the Bank announcing the planned amount of purchases in a range form, as was the case with the current guideline for JGB purchases, but many others voiced the opinion that it was desirable for the Bank to pinpoint a specific amount of planned purchases in view of prioritizing the predictability of its market operations. Many also requested that the Bank respond in a flexible manner in the case of a rapid rise in interest rates.

(4) As for how to proceed with the reduction in each maturity segment, while there was a wide range of opinions, on the whole, many participants were of the opinion that the Bank should place priority on reducing purchases of JGBs with residual maturity of up to 10 years.

The staff then explained a possible plan for the reduction of the purchase amount of JGBs as follows, taking account of the aforementioned views from market participants.

(1) In principle, long-term interest rates are to be formed in financial markets, and it was appropriate for the Bank to reduce its purchase amount of JGBs in a predictable manner, while allowing enough flexibility to support stability in the JGB markets.

(2) From this viewpoint, the reduction plan could be designed as follows.

(a) The time frame for the plan for the reduction would be the period until March 2026.

(b) With regard to the amount and pace of the reduction, the Bank would reduce the planned amount of its monthly purchases of JGBs so that it would be about 3 trillion yen in January-March 2026. The amount would be cut down by about 400 billion yen each calendar quarter in principle.

(c) As for the amount of purchases in each maturity segment, the Financial Markets Department would set the amount as appropriate, taking account of developments in the JGB markets. In doing so, the Bank would pinpoint a specific amount of planned purchases, instead of in a range form.

(d) In the case of a rapid rise in long-term interest rates, the Bank would 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.

(e) At the June 2025 Monetary Policy Meeting, the Bank would conduct an interim assessment of the plan for the reduction of its purchase amount of JGBs. In principle, the Bank would maintain the plan for the reduction after the assessment, while it might modify the plan as appropriate, if deemed necessary after reviewing the developments in and functioning of the JGB markets. At the meeting, it would also discuss a guideline for its JGB purchases from April 2026 and announce the results.

(f) The Bank would amend the plan for the reduction of its purchase amount of JGBs at the Monetary Policy Meetings, if deemed necessary.

IV. Summary of Discussions on Monetary Policy

Members discussed monetary policy based on the above assessment of economic and financial developments as well as the staff reports on the plan for the reduction of the purchase amount of JGBs.

Members first exchanged views on the plan for the reduction of the purchase amount of JGBs.

Members shared the recognition that, in order for long-term interest rates to be formed smoothly in the market, it was appropriate for the Bank to proceed with a sizable reduction in the purchase amount in a predictable manner. One member expressed the view that, in order to allow interest rates to be determined by the market, the Bank should, in principle, proceed with the reduction of its purchase amount of JGBs according to the plan, in a straightforward manner. In addition, a different member pointed out that market participants' views on the reduction varied widely at the Bond Market Group Meeting, and therefore the risk of market disruption arising from one-sided expectation formation was not high. The member then said that, in this situation, it was desirable for the Bank to reduce its purchase amount of JGBs steadily at a moderate pace. With regard to the specific amount of the reduction, one member noted that reducing the Bank's purchase amount of JGBs could be seen as being the same as issuing JGBs, in that it increases JGB supply in the market. The member continued that, given this, it could be considered that, with the reduction discussed at this meeting, the market would enter a phase of historically large JGB issuances. In relation to this, one member pointed out that, unlike the issuance of JGBs, the reduction of the purchase amount would be accompanied by a decrease in current account balances held by financial institutions at the Bank. This member continued that, on the condition that financial institutions had a fixed amount of liabilities, they would purchase assets of some kind to make up for the decrease, and that, in this sense, the reduction would have a neutral impact on the funds flow. In addition, the member said that, from the perspective of financial institutions' risk-taking capacity, proceeding with the reduction of the purchase amount of JGBs could give rise to concern over a shortage of JGB buyers, although this was unlikely to be an issue for the time being. One member noted that, given factors such as financial regulations, if the Bank reduced its purchase amount of JGBs at a pace that was significantly faster than the pace indicated in the staff's proposal, this could intensify upward pressure on interest rates, due to a decline in risk-taking capacity in the market, and in turn create a risk that the reduction plan would bring about strong monetary tightening effects. A different member expressed the view that the plan for the reduction of the Bank's purchase amount of JGBs was aimed at promoting a more active role for markets, not at monetary tightening.

Members then concurred that, in the plan for the reduction of the purchase amount of JGBs, it was also important to allow enough flexibility to support stability in the JGB markets. One member expressed the view that the reduction could be carried out without surprising the market if done prudently by, for example, reducing monthly purchases at an even pace each calendar quarter over a period slightly longer than a year and a half, to about 3 trillion yen, and by conducting an interim assessment of the reduction plan while allowing flexibility to make nimble responses. Some members expressed the view that, given uncertainties surrounding the supply and demand balance in the JGB markets, it was appropriate to maintain a framework that would allow the Bank to conduct, for example, unscheduled JGB purchases -- including fixed-rate purchase operations -- as a backstop in the case of a rapid rise in long-term interest rates. Moreover, some members said that, from the perspective of allowing flexibility, it was also appropriate to conduct an interim assessment of the reduction plan. One member pointed out that many market participants viewed that the reduction of the purchase amount would not have a large impact on the market at least until the amount of JGB purchases decreased to about 4 trillion yen per month. On this basis, the member noted that, when the amount of monthly purchases of JGBs decreased to this level, around June 2025, it would be desirable for the Bank to conduct an interim assessment and also announce a guideline for its JGB purchases from April 2026. One member said that, since the amount of JGB supply in the market would increase, it was important for the Bank to monitor developments in the market and investor behavior, with possible changes in the structure of JGB holdings in mind, and to continue to indicate its intention to communicate with bond market participants. Moreover, a different member expressed the hope that there would be a wider range of investors as long-term interest rates were formed more freely in the JGB markets and said that it was necessary to examine such points when conducting an interim assessment. Meanwhile, one member expressed the view that, since there was a long way to go to normalize the Bank's balance sheet, and the side effects of its large amount of JGB holdings would likely remain for some time, it was necessary to continue to carefully monitor market functioning and other factors.

Based on this discussion, members shared the recognition that the plan for the reduction of the purchase amount of JGBs reported by the staff was well balanced between predictability and flexibility and was therefore appropriate.

Members then discussed the guideline for money market operations for the intermeeting period.

Based on the discussions on economic and financial developments, members shared the following recognition: (1) Japan's economic activity and prices had been developing generally in line with the Bank's outlook presented in the Outlook Report, which was that, in the second half of the projection period, underlying CPI inflation was likely to be at a level that was generally consistent with the price stability target; and (2) the year-on-year rate of change in import prices had turned positive again, and upside risks to prices required attention. On this basis, many members expressed the view that, considering this situation, it was appropriate for the Bank to raise the policy interest rate to around 0.25 percent and adjust the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent.

Some members pointed out that the Bank had been indicating to date its stance that it would adjust the degree of monetary accommodation if economic activity and prices developed in line with its outlook. These members then said that, as such developments had been confirmed to a certain extent in wage and price developments, it was appropriate for the Bank to make moderate adjustments. One member added that the current economic situation could be assessed as being favorable enough for the Bank to raise the significantly low policy interest rate to some degree. In addition, a few members expressed the opinion that, with the year-on-year rate of increase in the CPI exceeding 2 percent for more than two years, upside risks to prices played a more important role in the Bank's policy decisions. In relation to this, one member expressed the view that it was also necessary to pay attention to the impact that price rises due to the yen's depreciation had on costs for small and medium-sized firms and on household sentiment.

On this basis, many members shared the recognition that real interest rates were expected to remain significantly negative even if the Bank raised the policy interest rate slightly, and accommodative financial conditions would continue to support economic activity. Some members expressed the view that it was appropriate to start gradually adjusting the significantly low policy interest rate at this stage, in response to developments in economic activity and prices. These members continued that this was in order to prevent a future heightening of the risk of the inflation rate exceeding 2 percent and a situation where such higher inflation consequently made rapid policy interest rate hikes necessary at a later time. One of these members added that real interest rates were at their most negative levels for the past 25 years, and the degree of monetary accommodation, based on various indicators, had been significantly above its average during the period of quantitative and qualitative monetary easing (QQE). Moreover, one member noted that, given the current environment surrounding prices, it might be time to consider raising the policy interest rate slightly. The member then expressed the opinion that it should be noted that raising the rate at a moderate pace meant an adjustment in the degree of monetary accommodation in accordance with underlying inflation, which would not have monetary tightening effects. Meanwhile, one member noted that it was necessary to carefully examine the effects on households and firms of a rise in the policy interest rate, and that, when doing so, the Bank needed to take into consideration rises in wages and corporate profits. The member added that it was also necessary to examine the effects of a rise in interest rates on factors such as profits and losses of individual financial institutions.

On the other hand, one member noted that, while it was not that the Bank could not raise the policy interest rate at all at present, it was necessary to more carefully assess how the economic situation had improved with wage hikes becoming widespread, based on relevant data, as there were many datasets showing somewhat weak developments in, for example, the economic growth rate and private consumption. In addition, a different member expressed the opinion that it was unlikely that an economy oriented toward contraction, which lasted for 30 years in Japan, would suddenly change within two short years. The member continued that, since there was little data confirming sustainable growth in Japan's economy at this point, the Bank should decide on changing the guideline for money market operations after assessing various key economic data at the next meeting.

As for the future conduct of monetary policy, members agreed on the following: while it would depend on developments in economic activity and prices as well as financial conditions, given that real interest rates were at significantly low levels, if the outlook for economic activity and prices was realized, it would be appropriate that the Bank accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation. On this basis, members shared the view that, 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.

One member expressed the opinion that, after the policy changes discussed at this meeting, if it was confirmed that prices were developing in line with the Bank's outlook and that positive corporate behavior -- such as solid business fixed investment, sustained wage hikes, and a continued pass-through of cost increases to selling prices -- was being maintained, it would be necessary to proceed with further adjustment of the degree of monetary accommodation as appropriate. A different member pointed out that, assuming that the price stability target would be achieved in the second half of fiscal 2025, the Bank should raise the policy interest rate to the level of the neutral interest rate toward that time. On this basis, the member expressed the view that, as the level of the neutral interest rate seemed to be at least around 1 percent, in order to avoid rapid hikes in the policy interest rate, the Bank needed to raise the policy interest rate in a timely and gradual manner, while continuing to pay attention to how the economy and prices would respond. In response, one member said that normalization of monetary policy must not be an end in itself, and that future policy needed to be conducted carefully, including the policy changes discussed at this meeting, by monitoring the various risks associated with progress toward normalization. In addition, a different member noted that, with medium- to long-term inflation expectations not being anchored at 2 percent, prices remained vulnerable to downside risks, and that the Bank should therefore avoid a situation where market expectations for future policy interest rate hikes increase excessively. Meanwhile, one member pointed out that there were high uncertainties regarding the level of the neutral interest rate in Japan, where the short-term interest rate had not been raised for a long time. On this basis, this member expressed the view that it was difficult to conduct monetary policy by setting the terminal level of the policy interest rate at the estimated level of the neutral interest rate and automatically shifting the policy interest rate to the terminal level. The member continued that, therefore, the Bank actually had no choice other than to pursue a path for the policy interest rate while examining how the economy and prices responded to changes in the short-term interest rate, including the impact of the policy interest rate hike discussed at this meeting.

In response to the members' views, the chairman requested that the staff present possible responses regarding <u>points that should be considered when changing the policy interest rate</u>. The staff presented possible responses as follows, taking account of the members' views.

(1) Treatment of a change in the policy interest rate could be as follows.

(a) With respect to the guideline for money market operations for the intermeeting period, the Bank would set the guideline that it would encourage the uncollateralized overnight call rate to remain at around 0.25 percent.

(b) The interest rate applied to the complementary deposit facility would be 0.25 percent.

(c) The basic loan rate applicable under the complementary lending facility would be 0.5 percent.

The new guideline for money market operations, the new interest rate applied to the complementary deposit facility, and the new basic loan rate would all be effective from August 1, 2024.

(d) The interest rates applied to the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas and the Funds-Supplying Operations to Support Financing for Climate Change Responses would be 0.25 percent.

(e) Regarding the Fund-Provisioning Measure to Stimulate Bank Lending, with a view to giving eligible counterparties a reasonable level of incentive to borrow funds under the measure, the Bank would provide the loans on a floating rate basis; the interest rate on the loans would be the average of the interest rates applied to the complementary deposit facility during the period in which the loans were extended.

(f) With a view to further facilitating money market operations, the Bank would introduce a fixed-rate method for sales of Japanese government securities (JGSs) with repurchase agreements.

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

(a) While it would depend on developments in economic activity and prices as well as financial conditions going forward, given that real interest rates were at significantly low levels, if the outlook for economic activity and prices was realized, the Bank would accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation.

(b) 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.

In reaction to the staff's explanation, many members shared the view that the responses presented by the staff were appropriate. One member pointed out that, in making public the Bank's stance on future policy conduct, it was necessary for the Bank to carefully explain that adjusting the degree of monetary accommodation did not imply monetary tightening, which sets the policy interest rate at a level that would constrain economic activity and prices. In relation to this, a few members said that it was important to clearly indicate that real interest rates were expected to remain significantly negative even if the Bank decided to raise the policy interest rate at this meeting.

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 11:55 a.m. and reconvened at 12:19 p.m.)

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

(1) The government would make steady progress toward achieving both economic revitalization and fiscal consolidation, based on the Basic Policy on Economic and Fiscal Management and Reform 2024.

(2) The government expected the Bank's reduction of its purchase amount of JGBs to be conducted as appropriate while giving due consideration to stability in the bond market and other factors. The government considered that the change in the policy interest rate had been judged necessary for achieving the price stability target of 2 percent, and it expected the Bank to explain its policy intention carefully to the public.

(3) The government expected the Bank to conduct 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 to see a moderate recovery led by private demand, while full attention should be given, for example, to the impact of the yen's depreciation and high prices on households' purchasing power and to the downside risk of a slowing down of overseas economies.

(2) Regarding the reduction of the Bank's purchase amount of JGBs, the government expected the Bank to take action flexibly as necessary, depending on the situation, while communicating with the market as appropriate. The government also expected the Bank to carefully explain its policy intention to the public in the case of a policy interest rate hike, so that it did not have unexpected effects on financial and capital markets and the real economy.

(3) The government expected the Bank to continue to conduct monetary policy as appropriate toward achieving the price stability target of 2 percent in a sustainable and stable manner, while continuing to cooperate closely with the government and monitor the virtuous cycle between wages and prices.

VI. Votes

A. Vote on the Guideline for Money 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 money 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 Money Market Operations:

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

> The Bank will encourage the uncollateralized overnight call rate to remain at around 0.25 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.

Nakamura Toyoaki dissented, considering that the Bank should decide on changing the guideline for money market operations after assessing sources such as the *Financial Statements Statistics of Corporations by Industry* at the next Monetary Policy Meeting, and that therefore it was desirable to only indicate this approach at this Monetary Policy Meeting.

Noguchi Asahi dissented, considering that it was necessary to more carefully assess how the economic situation had improved with wage hikes becoming widespread, based on relevant data.

B. Vote on a Change in the Interest Rate Applied to the Complementary Deposit Facility

To reflect the majority view of the members, the chairman formulated the following proposal on a change in the interest rate applied to the complementary deposit facility and put it to a vote.

The Policy Board decided the proposal by a majority vote.

The Chairman's Policy Proposal on a Change in the Interest Rate Applied to the Complementary Deposit Facility:

The interest rate applied to the complementary deposit facility will be as follows.

> The interest rate applied to the complementary deposit facility will be 0.25 percent per annum.

> 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 and Noguchi Asahi dissented for the same reasons as they opposed the proposal regarding the guideline for money market operations.

C. Vote on a Change in the Basic Discount Rate and the Basic Loan Rate

To reflect the majority view of the members, the chairman formulated the following proposal on a change in the basic discount rate and the basic loan rate and put it to a vote.

The Policy Board decided the proposal by a majority vote.

The Chairman's Policy Proposal on a Change in the Basic Discount Rate and the Basic Loan Rate:

The basic discount rate for discounting of bills pursuant to Article 33, paragraph 1, item (i) of the Bank of Japan Act and the basic loan rate for loans made pursuant to Article 33, paragraph 1, item (ii) of the Act will be as follows.

The basic discount rate and the basic loan rate will be 0.5 percent per annum.

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 and Noguchi Asahi dissented for the same reasons as they opposed the proposal regarding the guideline for money market operations.

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

To reflect the majority view of the members, the chairman formulated the following proposal and put it to a vote: the interest rates applied to the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas and the Funds-Supplying Operations to Support Financing for Climate Change Responses will be 0.25 percent. Regarding the Fund-Provisioning Measure to Stimulate Bank Lending, the Bank will provide the loans on a floating rate basis; the interest rate on the loans shall be the average of the interest rates applied to the complementary deposit facility during the period in which the loans are extended.

The Policy Board decided the proposal by a majority vote.

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 and Noguchi Asahi dissented for the same reasons as they opposed the proposal regarding the guideline for money market operations.

E. Vote on "Plan for the Reduction of the Purchase Amount of Japanese Government Bonds"

To reflect the view of the members, the chairman formulated a proposal on "Plan for the Reduction of the Purchase Amount of Japanese Government Bonds," shown in Attachment 2, and put it to a vote.

The Policy Board decided the proposal by a unanimous vote.

F. 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 the change in the guideline for money market operations 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 and Noguchi Asahi dissented from the amendment related to the proposal on the guideline for money market operations, as they had voted against it.

G. Discussion on the Statement Entitled "Change in the Guideline for Money Market Operations and Decision on the Plan for the Reduction of the Purchase Amount of Japanese Government Bonds"

On the basis of the above discussions, members discussed the statement "Change in the Guideline for Money Market Operations and Decision on the Plan for the Reduction of the Purchase Amount of Japanese Government Bonds." The chairman formulated the statement "Change in the Guideline for Money Market Operations and Decision on the Plan for the Reduction of the Purchase Amount of Japanese Government Bonds" 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. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the July 2024 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 August 1.

VIII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of June 13 and 14, 2024, for release on August 5.

IX. 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 2025 and agreed to make this public after the meeting.

Attachment 1
July 31, 2024
Bank of Japan

Change in the Guideline for Money Market Operations and Decision on the Plan for the Reduction of the Purchase Amount of Japanese Government Bonds

1. At the Monetary Policy Meeting (MPM) held today, the Policy Board of the Bank of Japan decided, by a 7-2 majority vote, to set the following guideline for money market operations for the intermeeting period: [Note]

   The Bank will encourage the uncollateralized overnight call rate to remain at around 0.25 percent.[7]

2. Regarding the reduction of its purchase amount of Japanese government bonds (JGBs), the Bank decided, by a unanimous vote, on a plan to reduce the amount of its monthly outright purchases of JGBs so that it will be about 3 trillion yen in January-March 2026. The amount will be cut down by about 400 billion yen each calendar quarter in principle (see Attachment 2).[8]

3. In accordance with the change in the guideline for money market operations, the Bank made the following decisions, including changes to the interest rates applied to its measures, by a 7-2 majority vote.[9] [Note]

   (1) Interest rate applied to the complementary deposit facility

   The interest rate applied to the complementary deposit facility (the interest rate applied to current account balances held by financial institutions at the Bank, excluding required reserve balances) will be 0.25 percent.

---

[7] The new guideline for money market operations will be effective from August 1, 2024.

[8] Regarding purchases of CP and corporate bonds, the Bank will conduct the purchases in accordance with the decisions made at the March 2024 MPM.

[9] The new interest rate applied to the complementary deposit facility and the new basic loan rate will be effective from August 1, 2024. With a view to further facilitating money market operations, the Bank also decided to introduce a fixed-rate method for sales of Japanese government securities (JGSs) with repurchase agreements.

(2) Basic loan rate[10]

The basic loan rate applicable under the complementary lending facility will be 0.5 percent.

(3) Interest rates applied to new loan disbursements under the Fund-Provisioning Measure to Stimulate Bank Lending etc.

The interest rates applied to the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas and the Funds-Supplying Operations to Support Financing for Climate Change Responses will be 0.25 percent. Regarding the Fund-Provisioning Measure to Stimulate Bank Lending, the Bank will provide the loans on a floating rate basis.[11]

4. Japan's economic activity and prices have been developing generally in line with the outlook presented in the previous *Outlook for Economic Activity and Prices* (Outlook Report). In the corporate sector, business fixed investment has been on a moderate increasing trend, with corporate profits improving. In the household sector, private consumption has been resilient despite the impact of price rises and other factors. On the wage side, moves to raise wages not only have been seen for large firms, which achieved wage increases that were significantly higher than those seen in the previous year in this year's annual spring labor-management wage negotiations, but also have been spreading across regions, industries, and firm sizes. On the price front, although the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices have waned, services prices have continued to rise moderately, with a strengthening of moves to reflect wage increases in selling prices. Inflation expectations of firms and households have risen moderately. The year-on-year rate of change in import prices has turned positive again, and upside risks to prices require attention.

   In view of these circumstances, the Bank judged it appropriate to adjust the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent. Real interest rates are expected to remain significantly negative after the change in the policy interest rate, and accommodative financial conditions will continue to firmly support economic activity.

5. As for the future conduct of monetary policy, while it will depend on developments in economic

[10] The basic loan rate is stipulated in Article 15, paragraph 1, item (ii) of the Bank of Japan Act. The basic discount rate in item (i) in the same paragraph also will be 0.5 percent (discounting of bills is currently suspended).

[11] The interest rate on the loans shall be the average of the interest rates applied to the complementary deposit facility during the period in which the loans are extended.

activity and prices as well as financial conditions going forward, given that real interest rates are at significantly low levels, if the outlook for economic activity and prices presented in the July Outlook Report will be realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation. With the price stability target of 2 percent, it will 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.

[Note] 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. Nakamura Toyoaki dissented, considering that the Bank should decide on changing the guideline for money market operations after assessing sources such as the *Financial Statements Statistics of Corporations by Industry* at the next MPM, and that therefore it was desirable to only indicate this approach at this MPM. Noguchi Asahi dissented, considering that it was necessary to more carefully assess how the economic situation had improved with wage hikes becoming widespread, based on relevant data.

Plan for the Reduction of the Purchase Amount of Japanese Government Bonds

In principle, long-term interest rates are to be formed in financial markets, and it is appropriate for the Bank to reduce its purchase amount of Japanese government bonds (JGBs) in a predictable manner, while allowing enough flexibility to support stability in the JGB markets. Taking this into account, the Bank will conduct the outright purchases of JGBs until March 2026 as follows.

1. The Bank will reduce the planned amount of its monthly purchases of JGBs so that it will be about 3 trillion yen in January-March 2026. The amount will be cut down by about 400 billion yen each calendar quarter in principle (see Annex).

2. At the June 2025 Monetary Policy Meeting (MPM), the Bank will conduct an interim assessment of the plan for the reduction of its purchase amount of JGBs. In principle, the Bank intends to maintain the plan for the reduction after the assessment, while it may modify the plan as appropriate, if deemed necessary after reviewing the developments in and functioning of the JGB markets. At the meeting, it will also discuss a guideline for its JGB purchases from April 2026 and announce the results.

3. 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.

4. The Bank is prepared to amend the plan for the reduction of its purchase amount of JGBs at the MPMs, if deemed necessary.

Annex

Amount of Monthly Outright Purchases of Japanese Government Bonds

	Amount of outright purchases of Japanese government bonds (JGBs)
July 2024 (amount purchased)	About 5.7 trillion yen
August-September 2024	About 5.3 trillion yen
October-December 2024	About 4.9 trillion yen
January-March 2025	About 4.5 trillion yen
April-June 2025	About 4.1 trillion yen
July-September 2025	About 3.7 trillion yen
October-December 2025	About 3.3 trillion yen
January-March 2026	About 2.9 trillion yen

Note: The schedule of the outright purchases of JGBs, including the purchase size per auction by residual maturity and dates, will be continued to be announced in "Quarterly Schedule of Outright Purchases of Japanese Government Bonds (Competitive Auction Method)."