Not to be released until 8:50 a.m. Japan Standard Time on Wednesday, November 6, 2024.

November 6, 2024

Bank of Japan

# Minutes of the Monetary Policy Meeting

## on September 19 and 20, 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 Thursday, September 19, 2024, from 2:00 p.m. to 3:41 p.m., and on Friday, September 20, from 9:00 a.m. to 11:45 a.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]
SHINDO Yoshitaka, Minister of State for Economic and Fiscal Policy, Cabinet Office[4]
HAYASHI Sachihiro, Vice-Minister for Policy Coordination, Cabinet Office[5]

Reporting Staff

KATO Takeshi, Executive Director
SHIMIZU Seiichi, Executive Director (Assistant Governor)

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1 The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 30 and 31, 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 September 20.

3 Present on September 19.

4 Present on September 20 from 10:43 a.m. to 11:45 a.m.

5 Present on September 19 for the whole of the session, and on September 20 from 9:00 a.m. to 10:42 a.m.

SUWAZONO Kenji, Executive Director
MASAKI Kazuhiro, Director-General, Monetary Affairs Department
NAGANO Teppei, Head of Policy Planning Division, Monetary Affairs Department
FUJITA Kenji, Director-General, Financial Markets Department
NAKAMURA Koji, Director-General, Research and Statistics Department
SUGO Tomohiro, 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
KITAHARA Jun, Senior Economist, Monetary Affairs Department
NISHINO Kousuke, Senior Economist, Monetary Affairs Department

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

### 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 July 30 and 31, 2024.[7] The uncollateralized overnight call rate had been in the range of 0.227 to 0.229 percent.

Meanwhile, in accordance with the plan decided at the previous meeting for the reduction of the purchase amount of Japanese government bonds (JGBs), the Bank had conducted JGB purchases at the pace of about 5.3 trillion yen per month; this was a reduction of about 400 billion yen from the amount purchased in July 2024, which was about 5.7 trillion yen. The Bank had conducted purchases of CP and corporate bonds in accordance with the decision made at the March 2024 meeting.

### B. Recent Developments in Financial Markets

In the money market, the uncollateralized overnight call rate had been at around the target level of 0.25 percent. The general collateral (GC) repo rate had been at around the same level as the uncollateralized overnight call rate, albeit with temporary fluctuations. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) were more or less unchanged.

The Tokyo Stock Price Index (TOPIX) had declined over the intermeeting period, although it had increased after falling substantially at the beginning of August 2024, a fall mainly in reflection of a rapid deterioration in market sentiment and of the yen's appreciation. Yields on 10-year JGBs had decreased, generally moving in line with U.S. interest rates. The liquidity indicators in the JGB markets had temporarily deteriorated when many markets experienced rapid fluctuations at the beginning of August, but had subsequently improved. The diffusion index (DI) for the degree of bond market functioning in the *Bond Market Survey*, despite remaining negative, showed a slight improvement. In the foreign exchange market, the yen had appreciated against the U.S. dollar over the intermeeting period; it appreciated at

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

7 The guideline was as follows:

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

the beginning of August and had fluctuated thereafter. The yen had also appreciated against the euro.

**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 bottomed out, although weakness remained in part. Despite government support, the pace of improvement in the Chinese economy had slowed, with continued downward pressure from adjustments in the real estate market. Emerging and commodity-exporting economies other than China had improved moderately on the whole, with a pick-up in exports, mainly led by IT-related goods.

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 significantly since market expectations for policy interest rate cuts by the Federal Reserve had intensified further. European long-term interest rates had also declined, generally moving in line with U.S. interest rates. U.S. stock prices had risen over the intermeeting period; they declined at the beginning of August 2024 with the rapid deterioration in market sentiment, but had subsequently risen as overly pessimistic views on future developments in the U.S. economy had subsided. Meanwhile, currencies in emerging economies had been more or less flat. Crude oil prices had fallen, mainly against the background of concern over a future slowdown in the U.S. economy.

**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, the economy 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 recovery in global demand for IT-related goods.

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

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 accommodative financial conditions, as corporate profits followed an improving trend.

Private consumption had been on a moderate increasing trend despite the impact of price rises and other factors. The consumption activity index (CAI; real, travel balance adjusted) had increased for the April-June quarter of 2024, as automakers that had suspended production and shipment had resumed their activities. It had then increased for July relative to that quarter, partly due to an increase in sales of household electrical appliances and with services consumption continuing to increase moderately. Based on anecdotal information from firms and high-frequency indicators, private consumption since August seemed to have also been on a moderate increasing trend, although some firms had pointed out the following: an intensified thriftiness among households that reflected price rises, and the impact of factors such as typhoons. Consumer sentiment had bottomed out. Regarding the outlook, for the time being, although private consumption was expected to be affected by price rises, it was projected to continue on a moderate increasing trend, 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 been more or less flat recently; while it had been on an uptrend in industries such as face-to-face services, the number of involuntary non-regular employees had been on a downtrend with labor market conditions tightening. Nominal wages per employee had increased clearly, reflecting the results of the 2024 annual spring labor-management wage negotiations and an increase in bonus payments that was supported by high levels of corporate profits. 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. A positive trend in the year-on-year rate of change in real employee income was projected to gradually take hold, albeit with fluctuations.

As for prices, commodity prices had declined. The rate of change in the producer price index (PPI) relative to three months earlier had been slightly positive, with the rate of increase decelerating in reflection of factors such as a decline in international commodity prices. The year-on-year rate of increase in the services producer price index (SPPI, excluding international transportation) remained relatively high, in the range of 2.5-3.0 percent recently, mainly on the back of a rise in personnel expenses. The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) had been in the range of 2.5-3.0 percent recently, as services prices continued to rise moderately, reflecting factors such as wage increases, although the effects of a 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 of the July 2024 *Outlook for Economic Activity and Prices* (Outlook Report), 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 on the whole. 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 had been favorable. Those for corporate bonds had generally been favorable as well, although developments such as the postponement of corporate bond issuance had been seen in part, in response to increased market volatility. 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 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.

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

### A. Economic and Price Developments

With regard to global financial and capital markets, members shared the view that market sentiment deteriorated rapidly at the beginning of August 2024, when, triggered by growing concern over a slowdown in the U.S. economy, stock prices declined worldwide and the U.S. dollar weakened. In addition, members concurred that, although U.S. stock prices, for example, had subsequently rebounded, future developments in overseas economies, particularly the U.S. economy, remained unclear, and that financial and capital markets also remained unstable. Under these circumstances, as one of the factors behind the fact that Japan's financial and foreign exchange markets had seen especially large fluctuations after the turn of August, many members pointed to the rapid unwinding of positions that had been built up. Members then shared the recognition that, at this point, these fluctuations in stock prices and foreign exchange rates had not had a significant impact on, for example, the financial system. As one of the factors behind this, some members noted that the position adjustments had subsided in a relatively short period of time, with market liquidity being maintained to a certain degree. In relation to this, one member added that it was necessary to further develop the framework for monitoring market developments and the flow of funds. Moreover, a different member expressed the view that it was important that monitoring take into account all kinds of possibilities, given the rise in the presence of, for example, investment funds that were subject to fewer disclosure requirements and regulations.

Members shared the recognition that overseas economies had grown moderately on the whole, but that uncertainties over the outlook had heightened, particularly for the U.S. economy. One member expressed the view that, with inflation slowing, many countries and regions had begun to give greater weight in the conduct of monetary policy to maintaining employment. A different member pointed out that, since the shift to a floating exchange rate system in the 1970s, economic cycles in advanced economies and monetary policies corresponding to the cycles had been largely in sync. The member continued that these cycles had, however, recently diverged, and that developments in overseas economies, including the impact that this divergence had on markets, therefore needed to be examined without any preconceptions.

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. With regard to the outlook, they shared the recognition that, as a baseline scenario, although the economy was expected to slow moderately, it was likely to continue to see stable growth with a decline in the inflation rate and supported in part by the Federal Reserve's lowering of the policy interest rate. As background to this, some members pointed out that solid housing and stock prices had supported private consumption through wealth effects. However, many members, including these members, noted that uncertainties had recently heightened regarding, for example, future developments in the labor market and their impact on private consumption, and that this required close attention. One of these members added that, although the balance sheets of households and firms in the United States had been sound and financial conditions had been stable, it was necessary to closely examine developments in the U.S. economy until it was confirmed that the economy, particularly the labor market, had bottomed out. A few members expressed the view that, if high expectations for artificial intelligence dissipated, there was a risk that the U.S. stock market would experience significant adjustments, thereby affecting the real economy. In addition, many members were of the view that, even if the U.S. economy headed toward a soft landing, there were high uncertainties over the degree of policy interest rate cuts necessary to achieve a soft landing. One of these members expressed the view that uncertainties had heightened about the U.S. economy and the pace of policy interest rate cuts by the Federal Reserve, as seen in the large variation among the Federal Open Market Committee (FOMC) participants' projections for the appropriate policy interest rate. The member continued that attention needed to be paid to the possibility of these factors having a negative impact on yen exchange rates and corporate profits in Japan. A different member said that there was a risk of the U.S. dollar falling against the yen and of a decline in stock prices, depending on the degree of policy interest rate cuts, and that it would still take time to assess these risks. Meanwhile, some members pointed out that, after the U.S. presidential election, inflation might rise again in the United States and medium- to long-term interest rates might increase due, for example, to expansion in fiscal spending, strengthening of trade protection, and implementation of investment that had been held back.

Members shared the recognition that European economies had bottomed out, although weakness remained in part. One member expressed the view that wage and price developments had started to moderate, but that there was a risk of inflation rising again due to factors such as prolonged geopolitical issues. The member continued that downside risks to economic activity also warranted attention, since there was concern, particularly with regard to Germany, over the possibility of a structural decline in industrial strength and a protracted high youth unemployment rate.

Members shared the view that, despite government support, the pace of improvement in the Chinese economy had slowed, with continued downward pressure from adjustments in the real estate market. A few members pointed to the possibility that adjustments in the real estate market would take longer than expected. One of these members added that, while the recent growth in the Chinese economy had been supported by exports, the sustainability of this situation was of concern given the growing trade friction. A different member expressed the view that it was important to examine not only official statistics but also various alternative data to grasp the actual conditions of the Chinese economy.

Members shared the recognition that emerging and commodity-exporting economies other than China had improved moderately on the whole, with the pick-up in exports, mainly led by IT-related goods.

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

With regard to economic activity, members agreed that Japan's economy had recovered moderately, although some weakness had been seen in part. Most members expressed the view that economic developments since the previous meeting had been generally in line with the Bank's outlook in the July 2024 Outlook Report. One of these members was of the view that various indicators released since the previous meeting had been generally as expected or slightly stronger. One member pointed out that economic activity and prices had been developing generally as expected. The member then added that the current situation showed no signs that the Bank's policy changes so far would have a negative impact on economic and financial developments. A different member noted that recent indicators in Japan, such as those for wages, consumption, business fixed investment, corporate profits, and prices, suggested that the Bank's decision in July to raise the policy interest rate was appropriate.

As for the outlook for economic activity, members shared the recognition that Japan's economy was likely to keep growing at a pace above its potential growth rate, with overseas economies continuing to grow moderately and as the virtuous cycle from income to spending gradually intensified against the background of factors such as accommodative financial conditions. One member said that, when projecting future developments in economic activity, attention was warranted on whether the positive corporate behavior -- such as sustained wage hikes and a continued pass-through of cost increases to selling prices -- would be maintained even after the recent market fluctuations. One member noted that economic activity and prices had not been significantly affected by the market fluctuations and had been on track, developing in line with the Bank's outlook. The member continued that, under these circumstances, in considering any further policy interest rate hike, attention was warranted for the time being on consumer prices, the momentum toward the 2025 annual spring labor-management wage negotiations, and developments in the U.S. economy.

Members shared the recognition that exports and industrial production had been more or less flat. One member pointed out that, while exports to the NIEs and the ASEAN economies had been on a clearer uptrend due to the recovery in global demand for IT-related goods, overall exports had been constrained by stagnation in the Chinese and European economies.

Members shared the recognition that corporate profits had improved. One member pointed out that, in the *Financial Statements Statistics of Corporations by Industry, Annually* for fiscal 2023, current profits had increased for all capital sizes, including micro firms, which are not covered by the quarterly version of the statistics. The member then expressed the view that, according to sources such as anecdotal information, a wide range of firms had been able to pass on increases in raw material prices, personnel expenses, and other costs to prices.

Members agreed that business fixed investment had been on a moderate increasing trend with corporate profits improving. One member expressed the view that the impact on business fixed investment of the recent decline in stock prices and of heightened uncertainties regarding overseas economies had been small. The member continued that this was because many of the business fixed investments in recent years were made from a long-term perspective, as exemplified by investments related to digitalization and decarbonization, and because there had also been investment projects that could not be implemented due to constraints such as labor shortages. Meanwhile, one member pointed out that small and medium-sized firms, which employ 70 percent of workers in Japan, had tended to make wage hikes as a defensive step and had lacked momentum in earning power, and that these factors lead to an increase in consumers' thriftiness by giving rise to uncertainties over the achievement of sustained wage increases. On this basis, the member expressed the view that it was necessary to examine whether growth-oriented small, medium-sized, and larger firms would see developments that would lead a rise in real wages to take hold, which was required to eradicate employees' concerns about the future. This member continued that these developments included (1) improvement in the ability of growth-oriented small, medium-sized, and larger firms to pass on higher costs to prices, (2) improvement in their earning power, and (3) these firms' more active implementation of business fixed investment and mergers and acquisitions.

Members shared the view that the employment and income situation had improved moderately. Many members pointed out that wages had increased clearly, as the results of the 2024 annual spring labor-management wage negotiations had been reflected in scheduled cash earnings and as summer bonus payments had increased significantly due to the improvement in corporate profits. One member added that the minimum wage was scheduled to be raised in October, and that this would also push up wages. With respect to the outlook for wages, many members referred to the fact that the year-on-year rate of change in real wages had turned positive recently, and said that whether this trend would take hold warranted attention. A few members expressed the view that it was necessary to pay attention to whether or not recent developments in financial and foreign exchange markets would hinder the momentum for wage increases. One of these members commented that, with the yen's depreciation being rapidly retraced, there was concern over the possibility that (1) the pass-through of cost increases to consumer prices would be reversed due to a decline in raw material prices and export volume would decrease, and that (2) this could affect firms' profits, their appetite for wage hikes, and private consumption.

Members concurred that, given factors such as the continued increase in the CAI and the recent high-frequency indicators and anecdotal information, it was appropriate to change the assessment of private consumption from "has been resilient" to "has been on a moderate increasing trend." As background to this change, many members pointed to the improvement in the income situation, despite the ongoing impact of price rises and other factors. One of these members expressed the view that the prolonged downward pressure on consumption from the decline in real wages had started to wane. A few members noted that, although stock prices had fallen, there had been no observed effects thus far on consumption of high-end products at department and other stores, according to sources such as anecdotal information. One of these members added that the retracement of the yen's depreciation had, in part, exerted a positive impact on consumer sentiment. In addition, one member pointed out that a waning of temporary supply-side constraints due to a resumption of automobile production had contributed to a recovery in durable goods consumption. Meanwhile, one member noted that, with prices of daily necessities rising significantly, it was important for overall demand to be maintained. The member then expressed the view that it was necessary for the Bank to pay close attention to wage developments and to carefully monitor the situation, including through information on e-commerce consumption and consumption at discount stores, given that consumer behavior had changed since the pandemic.

As for prices, members agreed that the year-on-year rate of increase in the CPI (all items less fresh food) had been in the range of 2.5-3.0 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. Many members expressed the view that prices had been developing broadly in line with the Bank's outlook in the July 2024 Outlook Report. Some members pointed out that steady progress had been made in moves to pass on higher personnel expenses to prices, particularly for services. One of these members said that, even among items for which prices had not previously shown signs of an increase, the uptrend in prices had clearly strengthened for some items. Furthermore, the member added that, reflecting the effects of the past yen depreciation, prices of some goods items had also seen a strengthening uptrend. A different member commented that the factor pushing up prices was gradually shifting from inflationary pressure resulting from the pass-through of the rise in import prices to consumer prices, or the "first force," to inflationary pressure stemming from wage increases, or the "second force."

Members agreed that inflation expectations had risen moderately. One member noted that the recent rises in prices of fresh food and rice might have raised households' perceived inflation. A different member pointed out that the belief that prices would not rise still appeared to be entrenched among some consumers. The member then said that it was necessary to closely monitor whether this belief was indeed fading.

With regard to the outlook for prices, members agreed 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 year-on-year rate of increase in the CPI was projected to be pushed up through fiscal 2025 by factors such as the dissipation of the effects of the government's measures pushing down CPI inflation. Meanwhile, members shared the view that 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 the virtuous cycle between wages and prices continuing to intensify. They continued that, in the second half of the projection period of the July 2024 Outlook Report, underlying CPI inflation was likely to be at a level that was generally consistent with the price stability target.

As for risks to economic activity and prices, members 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, they shared the view that it was necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices. On this basis, members shared the recognition that, in particular, 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 stated that, since the previous meeting, the upside risk to prices reflecting higher import prices had become smaller with the yen's depreciation being retraced. One of these members expressed the view that, although upside risks to prices had decreased due to the yen's appreciation and a decline in crude oil prices, Japan's economy was not in a state where it would return to deflation.

**B. Financial Developments**

Members agreed that financial conditions in Japan had been accommodative. In addition, they shared the assessment that firms' funding costs had increased but remained at low levels on the whole. Some members pointed out that real interest rates remained significantly negative after the change in the policy interest rate, and that accommodative financial conditions were likely to support firms' business fixed investment, for example. One of these members said that, at this point, the change in financial conditions had not affected household and corporate behavior. In addition, one member expressed the view that, triggered by growing concern over a slowdown in the U.S. economy, prices in Japan's financial markets had become volatile, but that this was less likely to have a significant impact on financial conditions, given that the balance sheets of financial institutions, firms, and households had been sound.

**III. Summary of Discussions on Monetary Policy**

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

With respect to the guideline for money market operations for the intermeeting period, members agreed that it was appropriate for the Bank to maintain the guideline that it would encourage the uncollateralized overnight call rate to remain at around 0.25 percent.

As for the future conduct of monetary policy, members shared the basic thinking that 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. They then agreed that, given that future developments in overseas economies, particularly the U.S. economy, remained unclear and that financial and capital markets also remained unstable, it was necessary for the time being to monitor these developments with high vigilance, and to carefully assess how they would affect the outlook and risks for Japan's economic activity and prices and the likelihood of realizing the outlook. Members also shared the recognition that it was necessary to examine the impact of the policy interest rate hikes so far on economic activity and prices.

Many members expressed the view that, in making policy decisions, it was important for the Bank to carefully assess not only developments in financial markets at home and abroad but also the factors underlying these developments, such as the situation in overseas economies, particularly the U.S. economy. One of these members said that, since uncertainties regarding overseas economies had heightened, in order to examine the impact of recent market fluctuations, it was appropriate for the Bank to monitor developments in overseas economies and market developments for the time being and make further adjustments to the degree of monetary accommodation when such uncertainties declined. On this basis, the member was of the view that, in the current phase, the Bank should patiently maintain the current accommodative financial conditions to support economic activity. One member expressed the view that the price stability target had not been achieved, and that there remained uncertainties regarding economic and financial developments. The member continued that, in this situation, it was undesirable at this point to change the policy interest rate further, which might suggest a shift to full-fledged monetary tightening. A different member added that, in conducting monetary policy, it would be necessary for the Bank to give due consideration to downside risks to Japan's economy and monitor the data carefully.

Some members pointed out that, given that the upside risk to prices reflecting higher import prices had become smaller with the yen's depreciation being retraced recently, the Bank had enough time to assess how developments in overseas economies, particularly the U.S. economy, and in financial and capital markets would affect, for example, the outlook for Japan's economic activity and prices. One member noted that Japan's economic activity and prices were currently not in a situation where the Bank might fall behind the curve if it did not raise the policy interest rate at a certain pace. The member continued that, therefore, the Bank would not raise its policy interest rate when financial and capital markets were unstable. A different member commented that, while remaining convinced that it was desirable for the Bank to raise the policy interest rate without taking too much time if it was confirmed that there would be no major downward revisions to its outlook, the policy interest rate hike should not be an end in itself. The member added that it was desirable for the Bank to gradually raise the policy interest rate close to the level that was consistent with the expectations for sound growth of Japan's economy, and that the Bank needed to choose the appropriate timing for its policy change, taking account of factors such as the impact of sentiment on the real economy. One member pointed out that, as U.S. interest rates could move either up or down, it was desirable for the Bank to make monetary policy decisions judiciously after carefully examining the evolving situation. Meanwhile, one member said that the appropriate response at this point was to examine market developments, but, depending on developments in economic activity and prices, it was possible that raising the policy interest rate would become appropriate even when financial and capital markets were unstable. On this basis, the member added that it seemed that, if economic activity and prices remained on track, the Bank could follow a path in which it raised the policy interest rate gradually so that the rate would be 1.0 percent in the second half of fiscal 2025 at the earliest.

Members also discussed communication regarding monetary policy.

Many members noted that, while the Bank had been indicating its stance that it would adjust the degree of monetary accommodation if economic activity and prices developed in line with its outlook, the decision at the July 2024 meeting to raise the policy interest rate had taken the markets by surprise.

With regard to future communication, one member expressed the view that, considering this experience, the Bank would need to communicate its policy stance and other factors to markets more carefully when conducting further policy interest rate hikes. A different member was of the view that, if the Bank's view of the economy changed in response to developments in economic conditions and other factors and there was a possibility that this might cause the views of markets and the Bank to diverge, to prevent any such divergence, the Bank would need to communicate information with the utmost care. One member pointed out that, given the uncertainties surrounding economic activity and prices, it was inherently difficult for the Bank to gain credibility regarding its future policy, and the further into the future, the more difficult it was. Moreover, a different member said that, considering the aforementioned experience, instead of making policy decisions that emphasize expectations and projections, the Bank needed to indicate its stance that it would conduct monetary policy in line with actual data and to increase public understanding regarding the Bank's stance. The member continued that this needed to be done while enhancing the understanding of the economic situation among market participants and firms by signaling changes and developments in the real economy. Meanwhile, a few members pointed out that it was desirable that the Bank avoid as much as possible a period with no dissemination of information. One of these members expressed the view that the shared understanding between the Bank and markets over the language used by the Bank had decreased, partly because the Bank had not raised the policy interest rate for an extended period of time. This member continued that the Bank should make every effort to enhance its communication by, for example, disseminating information in a way that left no misalignment between the views of the Bank and markets, and promptly correcting any misalignment should it occur. Furthermore, the member added that, as there is a limit to what can be communicated solely through language, it might be an option for the Bank to release the Policy Board members' actual projections for the policy interest rate path. Meanwhile, a few members expressed the recognition that, instead of attempting to directly change market projections of the policy interest rate through dissemination of information, it was more important for the Bank to reiterate, for example, its outlook for economic activity and prices, its interpretation of the data behind the outlook, and its stance on policy conduct. One of these members pointed out that, considering the high uncertainties regarding not only the neutral interest rate but also the Bank's baseline scenario of the outlook for economic activity and prices, even if the Bank provided numerical projections of the policy interest rate, the projections would inevitably range quite widely and would therefore unlikely lead to effective communication. As for what information should be provided, one member said that carefully disseminated information about underlying inflation would be beneficial. In relation to this, one member pointed out that, although underlying inflation was an important factor, the Bank should also explain in its communications that the headline inflation rate continued to be at a high level. A different member expressed the view that, amid high uncertainties, possible change in the likelihood of realizing the baseline scenario played an important role in policy conduct, and that it was therefore necessary to convey this point carefully. The member added that this kind of approach had been common to some degree in recent communications by central banks in the United States and Europe. Based on these discussions, members shared the recognition that it was necessary for the Bank to carefully disseminate information about underlying inflation, the outlook and risks for economic activity and prices, and the likelihood of realizing the outlook.

## IV. Remarks by Government Representatives

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was recovering at a moderate pace, although it was still pausing in part. Regarding the outlook, the economy was expected to continue recovering at a moderate pace with the improving employment and income situation, while full attention should be given to factors such as a slowing down of overseas economies and fluctuations in financial and capital markets.

(2) Japan was entering a new economic stage. To secure this transition, the government would continue to conduct flexible policy.
(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 communicate carefully with markets.

The representative from the Ministry of Finance made the following remarks.
(1) In order to achieve sustainable economic growth, the government would aim to expand the virtuous cycle between prices and wages, taking all appropriate measures.
(2) In formulating the budget for fiscal 2025, the government would work toward achieving both economic growth and fiscal consolidation, in line with the Basic Policy on Economic and Fiscal Management and Reform 2024.
(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. Moreover, it expected the Bank to communicate effectively with financial and capital markets, including through its dissemination of information.

## V. Votes

### A. Vote on the Guideline for Money Market Operations

Based on the above discussions, to reflect the 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 unanimous 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, NAKAMURA Toyoaki, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki.

Votes against the proposal: None.

**B. Discussion on the Statement on Monetary Policy**

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

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

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of July 30 and 31, 2024, for release on September 26.

Attachment
September 20, 2024
Bank of Japan

**Statement on Monetary Policy**

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote, to set the following guideline for money market operations for the intermeeting period:

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

2. Japan's economy has recovered moderately, although some weakness has been seen in part. Overseas economies have grown moderately on the whole. Exports and industrial production have been more or less flat. 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 on a moderate increasing trend despite the impact of price rises and other factors. Housing investment has been relatively weak. Public investment has been more or less flat. Financial conditions have been accommodative. On the price front, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) has been in the range of 2.5-3.0 percent recently, as services prices have continued to rise moderately, reflecting factors such as wage increases, although the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices have waned. Inflation expectations have risen moderately.

   Japan's economy is 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 intensifies against the background of factors such as accommodative financial conditions. While the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices are expected to wane, the year-on-year rate of increase in the CPI (all items less fresh food) is 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 is expected to increase gradually, since it is projected that the output gap will improve and that medium- to long-term inflation expectations will rise with a virtuous cycle between wages and prices continuing to intensify. In the second half of the projection period of the July 2024 *Outlook for Economic Activity and Prices*, it is likely to be at a level that is generally consistent with the price stability target.

Concerning risks to the outlook, there remain 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. In particular, with firms' behavior shifting more toward raising wages and prices recently, exchange rate developments are, compared to the past, more likely to affect prices.