Not to be released until 8:50 a.m. Japan Standard Time on Wednesday, January 29, 2025.

January 29, 2025

Bank of Japan

Minutes of the Monetary Policy Meeting

on December 18 and 19, 2024

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

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Wednesday, December 18, 2024, from 2:00 p.m. to 4:00 p.m., and on Thursday, December 19, 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

SAITO Hiroaki, State Minister of Finance, Ministry of Finance[2]
TERAOKA Mitsuhiro, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]
SETO Takakazu, State Minister of Cabinet Office, Cabinet Office[2]
HAYASHI Sachihiro, Vice-Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

KOUGUCHI Hirohide, Executive Director[4]
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 January 23 and 24, 2025, 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 December 19.

[3] Present on December 18.

[4] Present on December 18 from 3:15 p.m. to 4:00 p.m.

SUWAZONO Kenji, Executive Director

MASAKI Kazuhiro, Director-General, Monetary Affairs Department

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

KAIHATSU Sohei, Head of Policy Studies Division, Monetary Affairs Department[4]

SUZUKI Koichiro, Director-General, Financial System and Bank Examination Department[4]

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

YAGI Tomoyuki, Senior Economist, Monetary Affairs Department

KITAHARA Jun, Senior Economist, Monetary Affairs Department

NISHINO Kousuke, Senior Economist, Monetary Affairs Department

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 October 30 and 31, 2024.[6] The uncollateralized overnight call rate had been in the range of 0.227 to 0.232 percent.

Meanwhile, the Bank had conducted Japanese government bond (JGB) purchases of about 4.9 trillion yen per month, in accordance with the JGB reduction plan decided at the July 2024 meeting. 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 0.25 percent. The general collateral (GC) repo rate had been at around the same level as the uncollateralized overnight call rate, albeit with fluctuations. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had increased.

The Tokyo Stock Price Index (TOPIX) was more or less unchanged; while generally moving in line with a rise in U.S. stock prices, it had been weighed down by factors such as market concerns over the tariff policy of the incoming U.S. administration. Yields on 10-year JGBs had risen slightly, reflecting market expectations of policy interest rate hikes by the Bank. The liquidity indicators in the JGB markets continued to improve. The diffusion index (DI) for the degree of bond market functioning in the *Bond Market Survey*, despite remaining negative, showed an improvement, reaching around the level last seen in the November 2015 survey. In the foreign exchange market, the U.S. dollar/yen exchange rate was more or less unchanged over the intermeeting period, although it had fluctuated somewhat significantly in both directions, reflecting developments in the yield differential between Japan and the United States. The yen had appreciated against the euro.

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[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 0.25 percent.

C. Overseas Economic and Financial Developments

Overseas economies had grown moderately on the whole. The U.S. economy had grown solidly, mainly led by private consumption. 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 and labor markets. Emerging and commodity-exporting economies other than China had improved moderately on the whole, as exports had picked up, 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 developments in the policy conduct of countries around the world, developments in the Chinese economy, and how geopolitical tensions would unfold.

With respect to overseas financial markets, U.S. long-term interest rates had risen slightly over the intermeeting period, although they had temporarily fluctuated due to speculation over the incoming administration's fiscal policy conduct. European long-term interest rates had declined, as moves to factor in possible policy interest rate cuts by the European Central Bank (ECB) had intensified further, reflecting weak European economic indicators. U.S. stock prices had increased, mainly reflecting higher expectations for the incoming administration's expansionary fiscal policy and deregulation. Meanwhile, currencies in many emerging economies had depreciated against the background of the U.S. dollar's appreciation reflecting speculation over policy implementation by the incoming U.S. administration. Crude oil prices had been more or less flat.

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, 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, it was projected to return to an uptrend, mainly due to the recovery in global demand for IT-related goods.

Corporate profits had been on an improving trend. 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 continued on 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 July-September quarter of 2024, partly because of a rise in sales of goods due to the effects of hot weather and to purchases in preparation for natural disasters, and with services consumption increasing moderately as a trend. It had then decreased for October relative to that quarter, mainly for nondurable goods, due to a rebound decline following the ending of the boost from the effects of hot weather and stockpiling demand, and to sluggish sales of autumn and winter clothes as a reflection of the lingering heat. Based on anecdotal information from firms and on high-frequency indicators, private consumption since November seemed to have also been on a moderate increasing trend, although some firms had pointed to the effects of consumers' increased thriftiness due to price rises. Consumer sentiment had been more or less flat. 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 overall had been more or less flat recently: while the number of non-regular employees in industries such as face-to-face services had been on an increasing trend, the number of involuntary non-regular employees had been on a declining trend with labor market conditions tightening. Nominal wages per employee had increased clearly, reflecting factors such as 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. A positive trend in the year-on-year rate of change in real employee income was expected to take hold, albeit with fluctuations.

As for prices, commodity prices had declined slightly on the whole. The rate of increase in the producer price index (PPI) relative to three months earlier had accelerated, due to a rise in rice prices, the effects of the yen's depreciation, and 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 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 2.0-2.5 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 CPI, 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, 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. In the second half of the projection period of the October 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. Through fiscal 2025, it was expected that a dissipation of the effects of the government's measures pushing down inflation would make a positive contribution to the year-on-year rate of increase in the CPI (all items less fresh food), whereas factors such as the past decline in crude oil and other resource prices would make a negative contribution.

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 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 in the range of 3.0-3.5 percent. That in the aggregate amount outstanding of CP and corporate bonds had been in the range of 2.5-3.0 percent. Firms' financial positions had been favorable. The pace of increase in the number of bankruptcies of firms had slowed recently.

Meanwhile, the year-on-year rate of change in the money stock had been in the range of 1.0-1.5 percent.

II. Review of Monetary Policy from a Broad Perspective

A. Staff Reports

Based on the discussions at the October 2024 Monetary Policy Meeting, the staff had formulated a proposal for completing the review of monetary policy from a broad perspective (the Review). First, the staff reported the content of "The Bank's View" to be decided at this meeting.

The staff reported that "The Bank's View" would start with an overview of developments in economic activity, prices, and financial conditions in Japan since the latter half of the 1990s. Following that, regarding monetary policy over this period, it would outline (1) monetary policy conduct until the early 2010s; (2) the impact of the large-scale monetary easing since 2013 on economic activity and prices; and (3) the impact of large-scale monetary easing, mainly on market functioning, the functioning of financial intermediation, and the growth potential. The text would then assess the effects and side effects of large-scale monetary easing as a whole. Specifically, in light of the various analyses conducted in the Review and discussions among the Policy Board members, the text would state that "the assessment of the effects and side effects of large-scale monetary easing is as follows. Although there have been certain side effects on financial markets and financial institutions' profits, the overall effect on the Japanese economy so far appears to have been positive. However, attention should be paid to the possibility that the negative effects may become larger in the future, such as the possibility that the functioning of the JGB market does not fully recover or possible side effects of large-scale monetary easing materialize at a later date."

Regarding the implications for the future conduct of monetary policy, the staff reported that "The Bank's View" would state four viewpoints.

The first was on the Bank's thinking on unconventional monetary policy. The text would mainly describe the following points. First, unconventional monetary policy measures had been effective in pushing up Japan's economic activity and prices. Second, the quantitative degree of their effects was, however, uncertain, compared with guiding short-term interest rates, and, when unconventional measures were implemented on a large scale for a long period of time, they could bring about side effects. Third, if it became necessary to implement unconventional monetary policy measures, it would be important to weigh the benefits and costs, while taking into account developments in economic activity, prices, and financial conditions at the time.

The second viewpoint was on the price stability target of 2 percent. The text would mainly note the following points. First, given that unconventional monetary policy measures could not fully substitute for guiding short-term interest rates, it was necessary to ensure room for lowering real interest rates in the case of an economic downturn so that the zero lower bound would not be reached. Second, there was a bias in the CPI. Third, many central banks in major advanced economies had set their inflation targets at 2 percent. Fourth, in conducting monetary policy, it was important not only to focus on the observed inflation rate, but also to capture the underlying trend of inflation. The text would then summarize that it was appropriate for the Bank to continue to conduct monetary policy from the perspective of sustainable and stable achievement of the price stability target of 2 percent. In addition, it would refer to, for example, the results of surveys conducted in the Review, and point out that, when Japan was under prolonged deflation, or in a low-inflation environment, prices of individual items became more rigid and regular pay tended to be unchanged, and this might have distorted resource allocation or have constrained proactive investment by firms.

The third viewpoint was on the relationship between fiscal and monetary policy, and the fourth was on issues regarding individual monetary policy measures. The text would mainly note that, although the Bank should not exclude at this point any specific measures when considering the future conduct of monetary policy, looking ahead, in considering the implementation of each measure, it would be necessary for the Bank to design policy measures that could exert positive effects while minimizing side effects as much as possible, taking into account the findings of the Review.

In the proposal for completing the Review, after "The Bank's View," background analyses for the Bank's view would be outlined in "The Background" and "Appendixes," followed by a section of "Experts' Commentaries," in which eight financial and economic experts commented on the draft of the Review.

B. Discussions by the Policy Board

Members agreed that the staff's proposal for completing the Review was in accordance with discussions within the Policy Board at previous Monetary Policy Meetings. They continued that, upon confirming the content of the staff's proposal for release as the *Review of Monetary Policy from a Broad Perspective*, it was appropriate to make this text public after the meeting. Some members expressed the recognition that the Review had performed multi-perspective analyses on developments in economic activity, prices, and financial conditions since the latter half of the 1990s, and on monetary policy implemented since then. These members continued that the Review had provided resources for considering the Bank's policy conduct from a somewhat long-term perspective. One of these members pointed out that the Review had confirmed the benefits and costs of unconventional measures and had reiterated the importance of maintaining a positive inflation rate in a stable manner in order to avoid the zero lower bound. In relation to this, one member expressed the view that, rather than being particular about the numerical value of 2.0 percent, it was desirable for the Bank to examine whether the mechanism behind price developments was consistent with the price stability target. In addition, the member was of the view that it was unclear at this point whether it could be said that large-scale monetary easing had eventually brought about a positive effect, because no clear conclusions had been reached regarding the side effects on the supply side of the economy, and there was also the possibility that the overall negative effects might become larger in the future, including the chance that further possible side effects would materialize at a later date. Meanwhile, a few members expressed the view that it would be important for the Bank to carefully communicate to the public the findings of the Review by making use of various occasions.

On this basis, some members noted the necessity of further deepening analyses on several points, while taking into account the findings of the Review. One of these members noted that, given that the Bank was currently in the course of normalizing monetary policy, it was necessary to continue to analyze the impact of large-scale monetary easing -- while taking into account experts' viewpoints on the costs of deflation, the impact of large-scale monetary easing on households, public finance and money flow, and other issues. A different member pointed out that the Bank should further deepen its understanding of the details of the effects and side effects of individual policy measures. In addition, the member commented that the Bank should carefully follow whether prolonged monetary easing would give rise to problems through, for example, the impact on the economy and people's livelihoods of the excessive depreciation of the yen and a surge in housing prices in metropolitan areas. One member noted that the relationship between changes in the economic structure and the effects of monetary policy, which had been pointed out in the experts' commentaries, was an important issue to be addressed.

Meanwhile, one member expressed the view that, in light of the conclusion of the Review that attention was warranted on the possibility that possible side effects of large-scale monetary easing, such as on financial intermediation activities, would materialize at a later date, it was desirable that the Executive Director in charge of the Financial System and Bank Examination Department and the Director-General of the department attend other Monetary Policy Meetings in addition to the meetings held four times annually that decide on the Outlook Reports. The member then said that sharing issues raised by the Policy Board would contribute to monitoring of financial institutions. A different member noted that the participation of the Financial System and Bank Examination Department would be beneficial in terms of monitoring the effects on the financial system of the rise in interest rates. Based on this discussion, members concurred that, with a view to paying further attention to developments in the financial system, it would be appropriate to have the Financial System and Bank Examination Department attend every Monetary Policy Meeting.

C. Vote

Based on the above discussions, the chairman formulated a proposal on "The Bank's View" in the *Review of Monetary Policy from a Broad Perspective* and put it to a vote.

The Policy Board decided the proposal by a unanimous vote. It was confirmed that this would be made public after the meeting.

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

A. Economic and Price Developments

With regard to global financial and capital markets, members shared the view that, although market sentiment had followed an improving trend since early autumn 2024, attention had been paid to uncertainties surrounding the policy conduct of the incoming U.S. administration.

Members shared the recognition that overseas economies had grown moderately on the whole. A few members pointed out that, as the economic situation varied considerably across countries and regions, differences in the direction of monetary policy also continued to be seen.

Members agreed that the U.S. economy had grown solidly, mainly led by private consumption. With regard to the outlook, members shared the recognition that a soft landing of the U.S. economy remained the baseline scenario, considering, for example, economic indicators released since the previous meeting. Some members pointed out that the risk of the labor market deteriorating rapidly -- which was a matter of concern in summer 2024 -- had decreased, and that sustained economic growth, supported by private consumption, had begun to be observed. However, many members expressed the recognition that there were high uncertainties surrounding the policy conduct of the incoming U.S. administration, and that it would be necessary to pay close attention to the effects of the policy conduct on economic activity and prices. A few members pointed out that it was difficult at this point to assess the effects of the incoming administration's policy conduct on U.S. economic activity and prices, because these effects depended largely on the specific policies that would be adopted. A different member added that, with high uncertainties regarding the policy conduct and economic developments that would partly be affected by the policy conduct, it was necessary to continue to pay attention to the possibility of markets seeing large fluctuations due to, for example, the release of indicators. Moreover, a few members expressed the recognition that the policy conduct of the incoming U.S. administration could have a significant impact not only on economic and price developments in the United States, but also on the global economy and global financial and capital markets. Meanwhile, some members expressed the view that the policies which the incoming U.S. administration was said to be considering could exert upward pressure on inflation in the United States. One of these members said that the U.S. economy could accelerate again in the near future, rather than making a soft landing, as it was expected to be underpinned from the fiscal side. A different member pointed out that, regarding uncertainties over the U.S. economy, the focus had shifted more toward upside risks than downside risks, compared with how it was in August 2024.

Members shared the recognition that European economies had bottomed out, although weakness remained in part. A few members expressed the view that they had been underpinned by policy interest rate cuts by the ECB. These members continued that, in Germany and France however, heightened uncertainties regarding their respective political situations had been constraining their economies. One of these members pointed out that the trade policy of the incoming U.S. administration could have a significant impact on European economies.

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 and labor markets. With regard to the outlook, a few members pointed out that, although the economy was expected to continue to be supported by fiscal spending and monetary easing, adjustment pressure in the real estate and labor markets was highly likely to continue. On this basis, these members added that an expansion of trade friction resulting from excessive supply capacity was also a matter of concern.

Members shared the recognition that emerging and commodity-exporting economies other than China had improved moderately on the whole, as exports had picked up, 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 shared the view that Japan's economy had recovered moderately, although some weakness had been seen in part. Members concurred that economic developments since the previous meeting had been generally in line with the Bank's outlook in the October 2024 Outlook Report.

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.

Members shared the recognition that exports and industrial production had been more or less flat. As background to the fact that they had not turned to a clear uptrend, one member pointed to, for example, the possibility that firms had shifted their production sites overseas due to labor shortages, and the possibility that they had lost market share to overseas firms with the increased use of electric vehicles worldwide.

Members agreed that business fixed investment had been on a moderate increasing trend with corporate profits being on an improving trend and business sentiment staying at a favorable level. One member noted that business fixed investment plans in the December 2024 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) continued to show a relatively high increase, and that there had been no change in the virtuous cycle from corporate profits to business fixed investment.

Members shared the view that the employment and income situation had improved moderately. One member pointed out that the number of persons not in the labor force had declined recently for a wider range of demographics than before. The member then expressed the view that this suggested a further tightening of labor market conditions. In addition, many members expressed the view that nominal wage growth was expected to remain relatively high, with labor shortages intensifying and as corporate profits continued on an improving trend. One of these members expressed the view that, with labor shortages intensifying, it was more likely that fairly high wage hikes would be achieved at the 2025 annual spring labor-management wage negotiations, led by large firms with high profit levels. A different member pointed out that a paradigm shift had occurred in corporate behavior, in that firms now regarded wage hikes as a means and premise to secure their workforce, rather than as a form of giving back profits to employees. The member then stated that solid wage growth that was consistent with price rises of 2 percent could be expected at the 2025 annual spring labor-management wage negotiations. One member noted that moves to pass on cost increases to selling prices had spread, owing in part to the government's measures. The member then expressed the view that, coupled with hikes in the minimum wage, a wide range of firms were expected to continue raising wages. Meanwhile, some members noted that, although the baseline scenario was that wages would continue to rise, there were high uncertainties given that not enough information had been obtained at this point on whether high wage hikes would actually continue in 2025. In relation to this, one member said that, while some small and medium-sized firms had not benefited from the improvement in the profit environment from a macroeconomic perspective, they had faced significant pressure to raise wages due to relatively large increases in the minimum wage and wages of part-time employees. On this basis, the member expressed the view that the effects of price rises and wage hikes differed, depending on firm attributes such as firm size, and therefore attention was warranted on the fact that the situation varied considerably across firms. One member pointed out that some small and medium-sized firms had raised wages as a defensive step that was not accompanied by an increase in profits, and these firms therefore seemed to be experiencing difficulties in balancing wage increases with business fixed investment. The member then added that firms needed to continue their efforts to improve earning power to sustainably raise wages, and that regional financial institutions were expected to strengthen their follow-up support to small and medium-sized firms so that such firms could make structural reforms, which were necessary for higher productivity, to step up the scale of their businesses.

Members concurred that private consumption had been on a moderate increasing trend despite the impact of price rises and other factors. Regarding the outlook, they shared the view that, 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. One member pointed out that, in assessing the sustainability of the rise in private consumption, it was important to examine whether there would be a change in the mindset of households, as consumer attitudes toward price increases seemed to be still severe. A different member said that private consumption, which remained solid, could face heightened downside risks if inflation expectations rose further. The member continued that the Bank needed to assess the impact of price rises on private consumption, using various indicators of prices and inflation expectations. In addition, one member pointed out that, since many small and medium-sized firms seemed to have raised wages as a defensive step, it was likely that the employees of such firms had some concerns over the sustainability of wage hikes, leading to their persistent thriftiness.

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 2.0-2.5 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 pointed out that the month-on-month rate of increase in the CPI (all items less fresh food and energy, seasonally adjusted) had clearly accelerated since June 2024, generally maintaining an increase of around 3.5 percent on an annualized basis. In relation to this, a few members noted that moves to pass on increases in raw material costs and personnel expenses to selling prices had been developing generally as expected, but that the surge in rice prices had pushed up overall prices recently. One member expressed the view that the rise in prices of rice, a frequently purchased item, might have had a greater impact on household sentiment than the figures indicated.

Members agreed that inflation expectations had risen moderately. One member noted that firms' inflation expectations had already been above 2 percent in the *Tankan*, and that households' inflation expectations might also have already reached 2 percent, considering the need to interpret the expectations with more latitude in a phase of change.

With regard to the outlook for prices, members shared the view 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, 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 October 2024 Outlook Report, underlying CPI inflation was likely to be at a level that was generally consistent with the price stability target. One member expressed the recognition that the outlook for prices based on recent data had followed the path projected in the Outlook Report, namely that, while actual inflation was expected to decline moderately toward 2 percent, inflation expectations were projected to increase gradually toward 2 percent. The member continued that, given this, the likelihood of realizing the Bank's outlook had increased. A different member said that firms had had no choice but to be hesitant in sufficiently passing on increases in wages and other costs to selling prices, and that it would therefore likely take time for services prices to rise firmly through a pass-through of wage increases to selling prices. The member then added that, at this point, the risk of wages becoming lower than expected warranted closer monitoring than the risk of wages becoming higher than expected. In response to this, one member expressed the view that moves to pass on rises in personnel expenses and distribution costs to selling prices might have started to spread rapidly recently, similar to when moves to pass on higher raw material prices to selling prices spread sharply in 2022. A different member noted that, with the degree of monetary accommodation remaining high, underlying inflation could accelerate in a nonlinear fashion. The member continued that it was essential to carefully analyze whether or not signs of such acceleration had emerged.

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. Meanwhile, some members pointed out that upside risks to prices that reflected import price rises had decreased recently, relative to the phase of the yen's depreciation and rising crude oil prices in the first half of 2024. In relation to this, one member expressed the view that the policy conduct of the incoming U.S. administration could affect foreign exchange markets through the channel of causing an increase in inflation, which could then lead to higher interest rates, and, in turn, a stronger U.S. dollar. The member continued that, meanwhile, attention should also be paid to the possibility that the administration would aim at a weaker U.S. dollar to focus on export industries. A different member noted that the yen remained considerably weak compared with a while ago, and that if exchange rate misalignment grew, this could trigger larger shocks when such misalignment was adjusted.

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. One member expressed the view that it was necessary to continue to carefully examine the fact that real estate lending by regional financial institutions had increased, given limited growth in demand for funds in local loan markets.

IV. Summary of Discussions on Monetary Policy

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

As for the stance on monetary policy conduct for the time being, members concurred that, given that real interest rates were at significantly low levels, if the outlook for economic activity and prices was realized, in principle, the Bank would accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation. Many members pointed out that economic activity and prices had been developing in line with the Bank's outlook. One member expressed the view that, given ongoing price increases for around three years and the possibility of underlying inflation being pushed up if import prices rose, the Bank should not let expectations rise that monetary easing would be continued beyond what was necessary. The member continued that it was necessary for the Bank to adjust the degree of monetary accommodation at an appropriate timing. One member noted that the Bank should show that policy interest rate hikes that were deemed realistic would have a limited impact on its finances, and that its financial soundness would therefore be maintained. The member continued that this would contribute to, for example, dispelling the view held by some people that the Bank was concerned about its finances and thus could not raise the policy interest rate.

Members then shared the recognition that the Bank needed to judge the specific timing of adjusting the degree of monetary accommodation after carefully examining various data and information. A few members pointed out that, when making the adjustments, it was desirable for the Bank to explain clearly the necessity and basis for doing so.

Based on the above stance, with respect to the guideline for money market operations for the intermeeting period, most 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.

These members shared the recognition that (1) from the perspective of confirming that the virtuous cycle between wages and prices had intensified, a little more information was needed regarding future wage developments, such as the momentum toward the 2025 annual spring labor-management wage negotiations; and that (2) at this point, future developments in overseas economies -- particularly the U.S. economy -- remained unclear, and there also remained high uncertainties surrounding the economic policies of the incoming

U.S. administration. In addition, some members expressed the view that, at this stage, risks such as the upside risks to prices were not a reason to rush to raise the policy interest rate, as these risks had been contained to a certain degree. One of these members pointed out that, while import prices had been stable and yen carry trade positions had not been built up, on the domestic front, the cumulative increase in wages over the past three years had not caught up with that in prices, and it was therefore desirable that relatively high wage increases be achieved in 2025. Furthermore, the member noted that, in order to decide whether to raise the policy interest rate, the Bank should, on the domestic front, focus on developments in wages, services prices, and private consumption, and on the external front, it should focus on developments in the U.S. economy and the policy conduct, as well as developments in financial and capital markets reflecting these factors. On this basis, the member said that examination was therefore required of developments in the run-up to the 2025 annual spring labor-management wage negotiations and the situation surrounding the new U.S. administration. A few members expressed the view that it was necessary to confirm the momentum toward the annual spring labor-management wage negotiations, mainly through remarks by corporate executives at New Year events and reports at the January 2025 meeting of the general managers of the Bank's branches. A different member noted that actual price developments seemed to have been relatively strong recently, reflecting factors such as a surge in rice prices and a rise in services prices, which are considered to be relatively sticky; however, as inflation expectations had been stable, Japan's economy was not in a state where prices would rise at an accelerated pace. The member then expressed the view that, in addition to the uncertainties regarding the economic policies of the incoming U.S. administration, there were high uncertainties over the direction of discussions on tax and fiscal policy in Japan, and from the perspective of risk management, it was appropriate for the Bank to maintain the current monetary policy at this meeting. One member pointed out that (1) although there had been positive signs, accompanied by a continued decline in the labor share in larger firms and in small and medium-sized firms with relatively large-scale businesses, the improvement in the earning power of many small and medium-sized firms was still not strong; and that (2) there were high uncertainties regarding overseas economies, including the European and Chinese economies being slow to recover and developments in U.S. economic policy, as well as concerns over intensified competition vis-à-vis overseas firms. On this basis, the member expressed the recognition that, as it was necessary to confirm the progress in economic improvement at home and abroad using data, it was appropriate for the Bank to maintain the current monetary policy for the time being.

Meanwhile, one member noted that underlying inflation had been increasing steadily, while the risk of the Bank falling behind the curve was limited. The member then said that the Bank would likely decide to raise the policy interest rate in the near future, but, at this point, it was necessary for the Bank to be patient and monitor the uncertainties over the U.S. economy until those uncertainties subsided. A different member expressed the recognition that Japan's economic activity and prices had been in line with the Bank's outlook as of March 2024, and that, while uncertainties regarding overseas economies remained high, Japan's economy was in a state where the degree of monetary accommodation could be adjusted. On this basis, the member expressed the view that it was appropriate for the Bank to maintain the current monetary policy at this meeting, given that markets in December tended to experience rapid changes, with low trading volume and weak risk-taking behavior by market participants, and that more time should be taken in examining the impact of the July 2024 policy interest rate hike.

On the other hand, one member expressed the view that it was desirable for the Bank to raise the policy interest rate to around 0.5 percent at this meeting. The member noted that the Bank should slightly ease off the accelerator of monetary easing at this point, so that it could slow down when necessary while avoiding harsh braking. This member continued that this was because (1) given that risks to prices had become more skewed to the upside, with economic activity and prices developing in line with the Bank's outlook, adjusting the degree of monetary accommodation in a forward-looking, timely, and gradual manner, based on data and anecdotal information, would contribute to the sound development of the national economy through achieving price stability; and (2) the Bank should avoid raising interest rates rapidly when upside risks to prices materialized, which would cause a major shock to the economy.

In relation to <u>the future conduct of monetary policy</u>, members also discussed the relationship between the neutral interest rate and monetary policy conduct. One member expressed the view that, if the policy interest rate approached the neutral interest rate, the Bank would need to slow the pace of policy interest rate hikes to carefully examine how the economy and prices responded. The member then continued that, at this point, where the policy interest rate was still far from the neutral interest rate, it was desirable for the Bank to raise the policy interest rate in a timely manner. On the other hand, one member expressed the view that, with economic activity and prices developing in line with the Bank's outlook, the timing of adjusting the degree of monetary accommodation should depend on the assessment of both upside and downside risks observed at the time of each Monetary Policy Meeting, in addition to the pace at which the rate hikes needed to progress based on the projected interest rate level at the time the goal was expected to be reached. A different member pointed out that, in a phase where the economic structure had started to change, it seemed questionable to have a discussion on deciding the timing of policy interest rate hikes using the neutral interest rate estimated based on actual data for economic activity and prices, which largely consisted of data from the prolonged deflationary period in the past. In relation to this, one member expressed the recognition that it was necessary to consider the possibility that the impact on the economy of changing the policy interest rate could be changing, as the corporate sector had shifted significantly to a net saving position, in light of observations on the current cycle of policy interest rate hikes in the United States. In addition, regarding the relationship between real interest rates and the natural rate of interest, a different member said that, in many estimation models, the natural rate of interest was estimated to be somewhat low, because economic activity and prices did not seem to be accelerating despite real interest rates being at significantly low levels. The member continued, however, that there was actually a possibility that inflation expectations had not risen as much as suggested by, for example, survey results, and real interest rates were not as low as they appeared; in this case, the natural rate of interest could be viewed as not having declined very much. On this basis, the member expressed the view that, depending on such differences in interpretation, the implications for the Bank's conduct of monetary policy from a somewhat long-term perspective could differ.

V. Remarks by Government Representatives

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

(1) By swiftly and appropriately implementing the policies in the economic policy package and the supplementary budget for fiscal 2024, the government would bring about economic conditions that allow wage increases to consistently outpace inflation, thereby advancing the transition to a "growth-oriented economy driven by wage increases and investment."

(2) 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.

The representative from the Cabinet Office made the following remarks.

(1) The government assessed that the Japanese economy was recovering at a moderate pace, although it was still pausing in part. That said, due attention was warranted on uncertainties such as downside risks to overseas economies.
(2) The government would swiftly and steadily implement the economic policy package and the supplementary budget so that it could do its utmost to enable a transition away from an economy oriented toward cost cutting to a growth-oriented 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 closely cooperate and exchange views with the government.

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.

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.

Tamura Naoki, however, considered that, with economic activity and prices developing in line with the Bank's outlook, risks to prices had become more skewed to the upside, and formulated the following proposal.

Tamura Naoki'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 0.5 percent.

The policy proposals submitted by the chairman and Tamura Naoki were put to a vote in the order of Tamura Naoki's proposal, followed by the chairman's proposal.

Tamura Naoki's policy proposal on the guideline for money market operations was defeated by a majority vote.

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

The chairman's policy proposal on the guideline for money market operations was decided by a majority vote.

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

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).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of October 30 and 31, 2024, for release on December 24.

Attachment
December 19, 2024
Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting (MPM) held today, the Policy Board of the Bank of Japan decided, by an 8-1 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.

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. Corporate profits have been on an improving trend and business sentiment has stayed at a favorable level. In this situation, 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 2.0-2.5 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. With regard to 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 are expected to wane, 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 October 2024 *Outlook for Economic Activity and Prices*, underlying CPI inflation is likely to be at a level that is generally consistent with the price stability target. Through fiscal 2025, it is also expected that a dissipation of the effects of the government's measures pushing down inflation will make a positive contribution to the year-on-year rate of increase in the CPI (all items less fresh food), whereas factors such as the past decline in crude oil and other resource prices will make a negative contribution.

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.

3. At this MPM, the Bank completed the "Review of Monetary Policy from a Broad Perspective," which it had been conducting since April 2023. In the review, the Bank examined the effects and side effects of unconventional monetary policy and laid out the implications for the future conduct of monetary policy, considering the developments in Japan's economic activity and prices as well as financial conditions over the past 25 years. While making use of the findings of the review, the Bank, with the price stability target of 2 percent, will continue to 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, NAKAMURA Toyoaki, NOGUCHI Asahi, NAKAGAWA Junko, and TAKATA Hajime. Voting against the action: TAMURA Naoki. Tamura Naoki considered that, with economic activity and prices developing in line with the Bank's outlook, risks to prices had become more skewed to the upside, and proposed that the Bank set the guideline for money market operations as follows: the Bank would encourage the uncollateralized overnight call rate to remain at around 0.5 percent. The proposal was defeated by a majority vote.